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1985 FINANCE FACTS YEARBOOK

A Factbook About
Consumers and the Consumer
Finance Business

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FOREWORD

Finance Facts Yearbook is an annual publication of the American Financial Services Association (formerly known as National Consumer Finance Association) which also publishes the monthly "Finance Facts" and research reports on consumer financial matters. These and other publications are offered at a nominal charge as a public service by the American Financial Services Association, whose members number 550 companies providing financial services to consumers through over 11,000 offices in the United States and Puerto Rico.

AFSA's membership is comprised of organizations commonly referred to as consumer finance companies, sales finance companies, industrial banks and industrial loan companies. Some members have insurance and retail subsidiaries, some offer commercial financing, some have manufacturing subsidiaries, some operate in Canada and some in Europe, Australia and Asia. Several members of AFSA are subsidiaries of highly diversified parent corporations, while others are subsidiaries of manufacturing companies, others of insurance companies, and others of bank holding companies.

The first seven chapters of the yearbook provide a convenient reference source of current information about significant aspects of the consumer sector. The human factors are briefly outlined: the size and make-up of the population as the underlying determinant of the types of goods and services needed; and the size and make-up of the adult population as the potential labor force to supply those goods and services. A review of consumer income, expenditures, saving and investment is followed by a description of consumer credit and the institutions involved.

Chapter 8, "The Consumer Finance Industry," provides a description of the business of finance companies and industrial banks, their markets, their sources of funds and other distinguishing characteristics of these financial institutions. Included is a brief account of the legal and regulatory framework within which these companies operate as well as the latest statistical information relative to finance company operations. The final section of Chapter 8, "DIDMCA" relates the implications for finance companies of the implementation of provisions of the Depository Institutions Deregulation and Monetary Control Act of 1980.

Finally, the "List of References" may be helpful to those who wish to obtain more information on the consumer finance industry.

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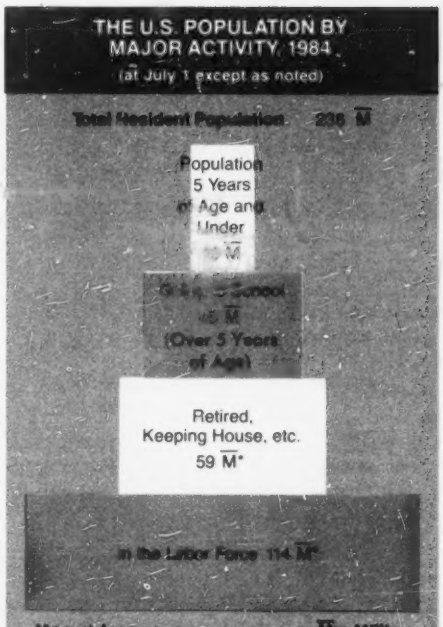
CHAPTER 1

THE POPULATION

The size and composition of the population are important determinants of the extent of consumers' demands for goods and services and of the types of products required to satisfy them. Demographic and geographic characteristics, the education and mobility of the population, as well as other characteristics, are important factors in determining the amount consumers will save, invest and spend, and, more indirectly, in determining the types of goods produced. The size of the labor force, for example, places one restraint on the goods and services made available by any economy. Historically, long term growth has been a feature of the United States economy, and has been possible in part through the existence of a large and growing skilled labor force, a wealth of entrepreneurial spirit and ambition, and constantly developing technology within a stable political system.

To provide the goods and services sufficient to satisfy the demands of the entire U.S. economy, well over half of the population contribute to production, either in the labor force or in the home. Almost one-fifth of the U.S. population are currently in the process of being educated and trained for the world of work, presumably in the interest of securing for the future the productive capacity of our economy. The resident population of the U.S. excluding members of the Armed Forces overseas was estimated at 236 million in 1984. Of this total about 114 million (48%) were in the labor force and about 45 million (19%), were in school (Chart 1). Many of

CHART 1


THE U.S. POPULATION BY MAJOR ACTIVITY, 1984
(at July 1 except as noted)
Total Resident Population 236 M
Population 5 Years of Age and Under
(Over 5 Years of Age)
Retired, Keeping House, etc.
59 M*
In the Labor Force 114 M*
*Annual Average
M = Million

these students were also working, at least part-time. As demographic characteristics of the population are important in determining current patterns of spending, saving, and production, projections about these characteristics permit some advance planning for use of resources by individuals, business and government. The following sections provide data on some of the more relevant demographic determinants of economic activity.

Population Growth and Family Formation

The population of the United States excluding members of the Armed Forces overseas was estimated in mid-1984 to be 236.1 million. By 1990, it is expected to increase by about 3% to stand at approximately 243.5 million.

As the birth rate in the United States declined after 1957, the growth rate of the population fell to low levels of 1% or less starting in 1968. Preliminary data from the U.S. Department of Health and Human Services suggest a natural increase in population (the excess of births over deaths) during 1984 of 1,650,000 persons, or 0.71%, compared with 0.69% in 1983. The remaining increase of 0.3% would be due to immigration. The number of births in 1984 was 2% higher than in 1983 at 3,697,000. This is in contrast to an average of 4.2 million each year during the first half of the 1960's.

The number of births yielded a birth rate of 15.7 births per 1,000 population, 1% higher than the rate of 15.5 in 1983. The

TABLE 1

POPULATION AND NUMBER OF HOUSEHOLDS
JULY 1, 1980-1995*

(In millions)

						Projected**	
	1980	1981	1982	1983	1984	1990	1995
Total Resident Population	227.2	229.5	231.8	234.0	236.1	243.5	252.6
Households	80.8	82.4	83.5	83.9	85.4	96.7	103.9
Husband-wife	49.1	49.3	49.6	49.9	50.1	54.7	56.7
Other	31.7	33.1	33.9	34.0	35.3	42.0	47.2
Male Householder	10.5	11.2	11.4	11.5	11.8	14.9	17.1
Female Householder	21.1	21.9	22.5	22.5	23.5	27.1	30.1
Living Alone***	(18.3)	(18.9)	(19.4)	(19.3)	(20.0)	na	na

Source: Bureau of the Census

Note: Parts may not add to totals due to rounding.

* Population and projected households as of July 1 of each year; estimates of households for years 1980 through 1984 are as of March.

** Population growth conforms to the Census Bureau Series II projection which is the middle estimate of three projections. Projections of number of households are the Census Bureau Series B based upon trends in marital status and householder proportions over the 1964-1978 period. A household consists of a person or group of persons who occupy a house, an apartment or other group of rooms, or a room that constitutes a housing unit.

*** Of the "other" households, those that constitute one-person households.

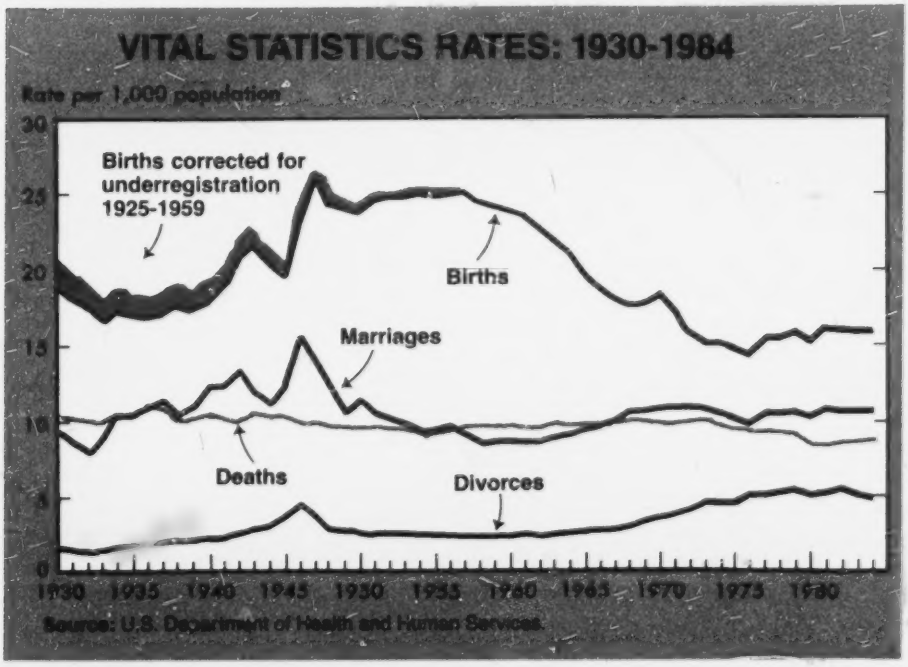
fertility rate was 66.0 live births per 1,000 women between the ages of 15 and 44, also 1% above the 65.4 rate last year. The number of women of childbearing age increased by 1%, less than the increase in the number of births. At the same time the number of women 15-24 years of age decreased by 2%, suggesting increased rates of birth among women in the older childbearing age bracket (25-44). The death rate has remained between 8.6 and 8.7 per 1,000 population in the past several years, and continued in that pattern in 1984, registering 8.7 again (up from 8.6 in 1983).

During the 1960's the number of marriages increased steadily from the 1958 low of 1.45 million, reaching 2.28 million in 1973. There was then a decline to 2.13 million in 1976, followed by a gradual rise to almost 2.5 million in 1982. In 1983 the number of marriages declined for the first time since 1975 to 2.444 million. The marriage rate per 1000 population decreased in 1983 to 10.5, lower than in 1982, and maintained at that level in 1984. The number of marriages in 1984 was 2.487 million. The divorce rate, which had increased rapidly since 1971 has now dropped for three consecutive years. In 1984 there were approximatley 1.155 million divorces, a rate of 4.9 per 1,000 population (Chart 2).

Households

Trends in family formation and in the number of households have special economic significance because the primary unit of consumption is often not the individual but the family or the household. This is especially true for housing and consumer durable goods such as automobiles, home furnishings and appliances. If, as is expected, present trends in family and household formation continue and the long-term trend in economic activity continues generally upward, it is anticipated that the number of households will increase from 85.4 million in 1984 to about 96.7 million in 1990 and 103.9 million in 1995.

CHART 2



The 85.4 million households in the U.S. in March of 1984 represented an increase of 4.6 million households since 1980. About 22% of this increase (1 million households) consisted of husband-wife (and family) households, while 37% (1.7 million) of the increase consisted of people living alone. The remainder of households were composed of two or more persons, other than married couples. This group accounted for 41% of the growth in all households. According to the Bureau of the Census, the average number of persons per household in March 1984 was 2.71 persons, down slightly from 2.73 the previous year. This figure has dropped off steadily since 1964 when the average household size was 3.33 persons.

TABLE 2

POPULATION INCLUDING ARMED FORCES ABROAD
BY AGE AND SEX JULY 1, 1979-2000

(In millions)

	1979	1980	1981	1982	1983	1984	Projected 1990	Projected 2000
Years of Age								
Both Sexes								
Under 5	15.6	16.5	16.9	17.3	17.6	17.8	19.2	17.6
5 to 15	38.6	38.8	38.2	37.8	37.6	37.6	38.6	42.1
16 to 24	37.6	38.8	38.6	38.0	37.4	36.6	32.3	32.2
25 to 34	35.0	37.6	39.0	39.6	40.4	41.1	43.5	36.4
35 to 54	48.1	48.6	49.1	50.6	51.8	53.2	63.2	80.8
55 to 64	21.0	21.8	22.0	22.1	22.2	22.3	21.1	23.8
65 and over	24.7	25.7	26.3	26.8	27.5	28.1	31.8	35.0
Total	220.6	227.7	230.0	232.3	234.5	236.7	249.7	268.0
By sex								
Under 16								
Male	27.7	28.3	28.2	28.2	28.3	28.0	29.6	30.6
Female	26.6	27.0	26.9	26.9	27.0	27.1	28.2	29.2
16 to 24								
Male	19.0	19.6	19.5	19.3	18.9	18.6	16.4	16.4
Female	18.6	19.1	19.0	18.8	18.4	18.1	15.8	15.8
25 to 54								
Male	40.8	42.4	43.4	44.4	45.5	46.5	52.9	58.4
Female	42.3	43.8	44.7	45.7	46.7	47.7	53.8	58.8
55 to 64								
Male	9.9	10.2	10.3	10.3	10.4	10.5	9.9	11.3
Female	11.0	11.6	11.7	11.8	11.8	11.8	11.2	12.5
65 and over								
Male	10.0	10.4	10.6	10.8	11.0	11.3	12.7	13.7
Female	14.6	15.3	15.7	16.0	16.4	16.7	19.1	21.3
Total								
Male	107.5	110.9	112.0	113.1	114.2	115.2	121.5	130.4
Female	113.1	116.9	118.0	119.2	120.3	121.4	128.2	137.6

Source: Bureau of the Census
Note: Parts may not add to totals due to rounding.

The change has resulted from the falling birth rate since the 1960's (which is reflected in a decrease in average number of children under 18 years of age per household from 1.23 in 1964 to 0.74 in 1983 and, despite the increased births, still further to 0.73 in 1984) and the increasing proportion of adults who are living alone (22.3 in 1979 compared with 23.4% in 1984). Average population per family (of related persons) dropped from 3.70 in 1964 to 3.24 in 1984.

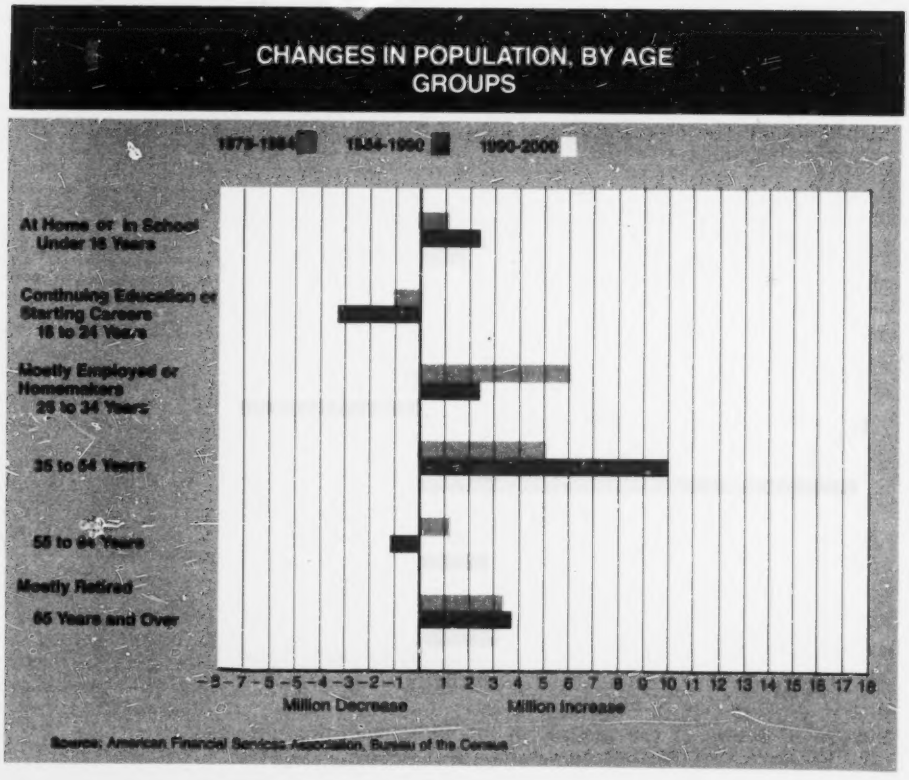
Age Groups

The number of persons in various age groups imposes requirements on the economy, particularly in the areas of education, the job market, and the market for various goods.

Table 2 details the U.S. population, including Armed Forces members residing abroad, by age group and within age group by sex as estimated for the years between 1979 and 1984, and as projected by the Census Bureau for the years 1990 and 2000. While the total number in each group is of interest for present-day marketers and others currently serving the consumer, the rate at which the size of these groups is changing is of greater concern, for purposes of planning, to business and government. The changes in the size of the various age groups from 1979 to 1984 and projected to 1990 and to 2000 are shown in Chart 3.

The number of young people at home or in school—those under 16 years of age—as almost the same in 1984 as in 1975 at just over 55 million, but is expected to increase by 2.4 million between 1984 and 1990 and by 1.9 million between 1990 and 2000. The number between 16 and 24 years declined 0.8 million during 1984 to 36.6 million, as the "baby boomers" continue to age out of that bracket.

CHART 3


CHANGES IN POPULATION, BY AGE GROUPS
1979-1984
1984-1990
1990-2000
At Home or In School Under 16 Years
Continuing Education or Starting Careers 16 to 24 Years
Mostly Employed or Homemakers 25 to 34 Years
35 to 54 Years
55 to 64 Years
Mostly Retired 65 Years and Over
-9 -7 -6 -5 -4 -3 -2 -1 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18
Million Decrease
Million Increase
Source: American Financial Services Association, Bureau of the Census

This group will continue to shrink as the century reaches its end. The largest segment of the population, and the most homogeneous in terms of labor force participation and thus productivity, those between 25 and 64 years of age, (most of whom are either in the labor force or work at home) numbered 2.2 million more in 1984 than in 1983 and 12.5 million more than in 1979. This group will grow to approximately 128 million by 1990, and to about 141 million between 1990 and 2000. The population 65 and over, most of whom are retired, numbered 3.4 million more in 1984 than in 1979 and 0.6 million more than in 1983.

Population Mobility

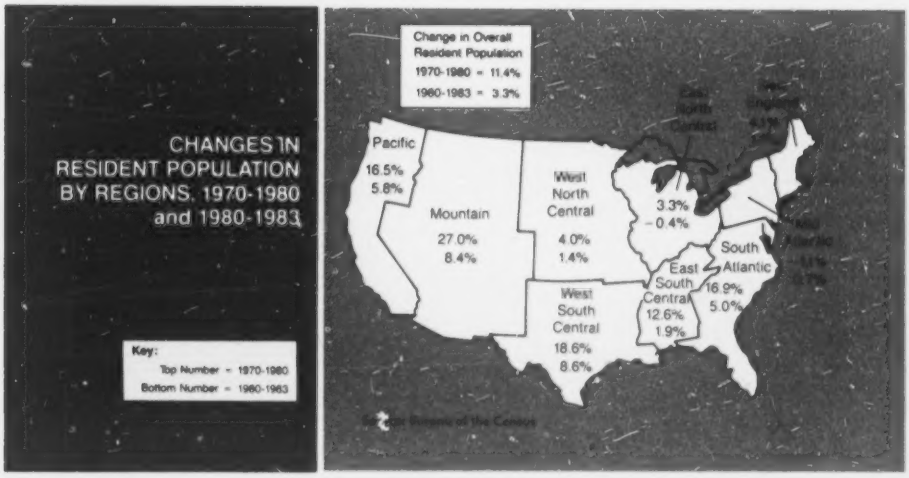
The mobility of the population, in addition to its size and other features, is an important factor in determining what and where the country's economy will be required to produce. The location of an industry's center or the need to transport finished or unfinished products across the country can be greatly affected by movements in the population, just as changes in industry can affect the mobility and geographical distribution of the population. The highest mobility rates usually occur among persons in their twenties. Many are in the process of establishing households, starting new jobs, finishing school or service in the Armed Forces, or have been recently married. In their later twenties, many are buying homes or moving to larger living quarters because of growing families, or are moving to housing more convenient to schools.

In the period between March 1982 and March 1983 about 16.6% of the U.S. population moved to a different residence within the United States. Comparison with the rates of the early 1970's and 1960's shows a steady decline in residential mobility (the rate in 1960-61 was 20.6%, and in 1970-71 18.7%). The decrease seems primarily due to the lower rates of local moves (moves within the same county). By educational attainment, mobility during this period was as follows: 10.1% of persons with 8 or fewer years of school completed had moved to a different house in the United States, while 15.8% of those with 4 years of high school and 17.4% of those with at least 4 years of college had moved.

Population Change by Region

The total U.S. resident population growth in the periods between 1970 to 1980 and 1980 to 1983, and growth of various regions of the country are shown in Chart 4. Gains in resident population higher than the overall U.S. gain between 1970 and 1980 occurred in the Pacific, Mountain, West-South-Central, East-South-Central and South Atlantic States. Between 1980 and 1982, growth was higher than overall in the same group with the exception of the East-South-Central States. Declines in resident population occurred in the Mid-Atlantic States during the earlier period and in the East-North-Central States since 1980. Part of the differential in rates of population growth is explained by differing birth rates, but most of the difference has resulted from changing economic developments and the highly mobile character of the population of the United States.

CHART 4


CHANGES IN RESIDENT POPULATION BY REGIONS, 1970-1980 and 1980-1983
Key:
Top Number = 1970-1980
Bottom Number = 1980-1983
Change in Overall Resident Population
1970-1980 = 11.4%
1980-1983 = 3.3%
Pacific
16.5%
5.8%
Mountain
27.0%
8.4%
West North Central
4.0%
1.4%
3.3%
- 0.4%
South Atlantic
East South Central
12.6%
1.9%
16.9%
5.0%
West South Central
18.6%
8.6%

CHAPTER 2

OCCUPATIONS OF THE POPULATION

The potential of an economic system to provide goods and services to satisfy the demands made of it is limited by the size and skills of its labor force and by its managerial capabilities. The quality of the present-day work force is a product of past education and training. The continued productivity of the labor force will also depend on education and training, and on a multitude of government policies and incentives, both intended and unintended.

Potential Labor Force

The potential labor force, defined as the noninstitutional population 16 years of age and over, consisted of an average of 178.1 million people in 1984, 1.3% higher than the 1983 figure (Table 3).

Actual Labor Force

The actual labor force, defined by the Department of Labor and the Bureau of the Census as those persons employed and looking for employment, was about 115.2 million in 1984, 1.8% larger than in 1983.

Those 16 years of age and over who were not in the labor force—those keeping house, going to school, unable to work and retired—numbered 62.8 million in 1984, almost unchanged from 1983. The labor-force participation rate was thus 64.7% among the noninstitutional population 16 years of age and older.

School Enrollment

Approximately 57.7 million persons between the ages of 3 and 34 were enrolled in schools or colleges in the United States either full or part-time in October, 1983, the latest date for which statistics are available (Table 4). This group comprised 48.4% of the total resident population in this age group, almost a full percentage point higher than the figure for 1982.

School enrollment among children 3 and 4 years old has increased markedly since 1970. In 1970, there were 1.1 million children enrolled in nursery school, compared with 2.3 million in 1982. This increase is primarily due to higher enrollment rates among 3 and 4 year-olds, rather than any drastic increase in the number of eligible nursery schoolers. In 1973, 17.7% of 3 to 4 year olds were enrolled in nursery school, by 1983 the figure had risen to 30.9%. This increase is presumably at least in part due to the increasing labor force participation rate as families with both parents working become more common. In the same period, the labor-force participation rate has risen from 61.3% to 64.7%.

TABLE 3

LABOR FORCE PARTICIPATION OF THE POPULATION
16 YEARS OF AGE AND OLDER, 1979-1984
(In millions of persons, annual averages)

	1979	1980	1981	1982	1983	1984
Noninstitutional Population*	167.0	169.8	172.3	173.9	175.9	178.1
Labor Force including resident armed forces	107.0	109.0	110.8	111.9	113.2	115.2
Armed forces	2.0	2.1	2.1	1.7	1.7	1.7
Civilian labor force	105.0	106.9	108.7	110.2	111.6	113.5
Employed	98.8	99.3	100.4	99.5	100.8	105.0
Unemployed	6.1	7.6	8.3	10.7	10.7	8.5
Not in labor force	59.9	60.8	61.5	62.0	62.7	62.8

Source: Bureau of the Census and Bureau of Labor Statistics.
Note: Parts may not add to totals due to rounding.

*Does not include those in mental, penal or welfare institutions.

The long-term decline in the number of younger children, however, has caused gradual decline in the grade school population. Elementary school enrollment peaked in 1970 at 34.0 million and had dropped by an even 25% to 27.2 million in 1983. High school enrollment in 1983 was, at 14.0 million, slightly below the 1970 enrollment figure and has now declined for 3 consecutive years. As the "baby boomers" have left the elementary and high schools, there has been a significant increase in the number of college students since 1970. The total number reached 10.9 million in 1982 and fell slightly to 10.8 million in 1983. From 1970 to 1982, the overall increase in the number of college students was 47%, and between 1965 and 1982, 92%. From 1970 to 1982 the majority of the increase in college enrollment was due to the growth in college attendance by women (3 million in 1970, 5.5 million in 1982). In fact, by 1982 there were 100 thousand more women than men enrolled in college although the number of women college students declined somewhat in 1983 (by 189,000 or 3.6% to 5,321 thousand) and fell below the number of male college students (which rose 95 thousand to 5,504 thousand).

The longterm increases in both the number and proportion of female college students coincide with other social and economic changes that have emerged recently among women such as marrying later, increased participation in the labor force, and continuing to work after children are born. The proportion of women in the labor force has risen steadily since 1970, the civilian labor force average participation rate for women having risen from 43.3% in 1970 to 53.0% in 1983 and 53.7% in 1984. Since 1978, more women have participated in the labor force (including armed forces) than have not. The release of college enrollment statistics for 1984 will thus be of interest in this regard.

Labor Force Participation

The total labor force, including members of the Armed Forces, averaged 115.2 million in 1984, up 2 million, or 1.8%, from 1983 (Table 3). With no change in the number of Armed Forces members, the

TABLE 4

ESTIMATED SCHOOL ENROLLMENT 1979-1983*

(In thousands)

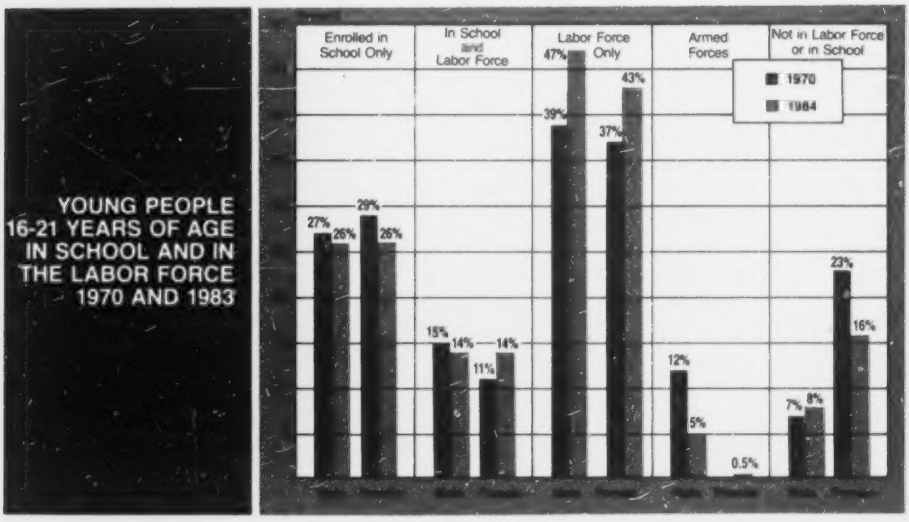
By Grade	1979	1980	1981	1982	1983
Nursery school	1,869	1,987	2,031	2,153	2,350
Kindergarten	3,025	3,176	3,272	3,299	3,361
Elementary school	27,865	27,449	28,241	27,412	27,198
High school (grades 9-12)	15,116	14,556	14,935	14,123	14,010
College or professional school	9,978	10,180	10,473	10,919	10,825
Total	57,854	57,348	58,953	57,905	57,745

Source: Bureau of the Census

Note: Parts may not add to totals due to rounding.

* As of October of each year.

CHART 5



civilian labor force also rose by 2 million. Average civilian employment for the year had decreased by almost 1 million to 99.5 million in 1982 (the first such decrease since 1975). This decline was recovered in 1983 and the average civilian employment for 1984 rose to 105.0 million. While the number of unemployed persons in 1983 averaged about the same, at 10.7 million as in 1982, it fell significantly to 8.5 million in 1984. With labor force and employment growing well and unemployment declining 20.6% in the year, 1984 was a very good year on the overall employment front.

Distributions of young people (16-21 years of age) in school and in the labor force are shown in Chart 5. Labor force participation changes from time to time for many homemakers, students, retired and disabled persons and others. By age, those in the 16 to 19 year age group are the least likely to participate consistently in the labor force and their participation has been dropping since early 1979 (Chart 6) although there was no clear trend during

1984. There has been slow long-term decline in the participation rate of males 20 years of age and over, from 82.0% in 1972 to 78.3% in December, 1983. This rate did not change during 1984. By contrast, participation by women 20 years of age and over has increased from 43.9% in 1972 to 54.0% in December, 1984.

Industry Employment

Employment in all industries started 1983 at low levels, and mining was the only industry in which employment did not increase at least slightly from year-end 1982 to year-end 1983. Employment in all industries climbed overall in 1984, but in some industries very slowly. Overall industrial employment (nonagricultural payroll jobs) rose 4.1% in 1984. Higher than overall increases occurred in the wholesale and retail trade, service, construction and mining industries. All other industries showed slower than 4.1% growth in payroll employment.

Occupations

The number of employed civilians at the end of 1984 had risen by slightly more than 3 million from the year earlier to 106.0 million (Table 5). The number of white-collar workers was 58.3 million in 1984 up 3.8% from 56.2 million in 1983. The number of civilians employed in service occupations increased more slowly in 1984 than in 1983 at 1.2% and the number of farm jobs rose by 1.8% reversing last year's decline, although not reaching the number of farming jobs in 1982. The Bureau of Labor Statistics has recently redefined occupational categories to reflect changes in industry more accurately. Table 5 is based on these new categories.

CHART 6

CIVILIAN LABOR FORCE PARTICIPATION RATES BY SEX AND AGE, 1965-1984

(Seasonally Adjusted)

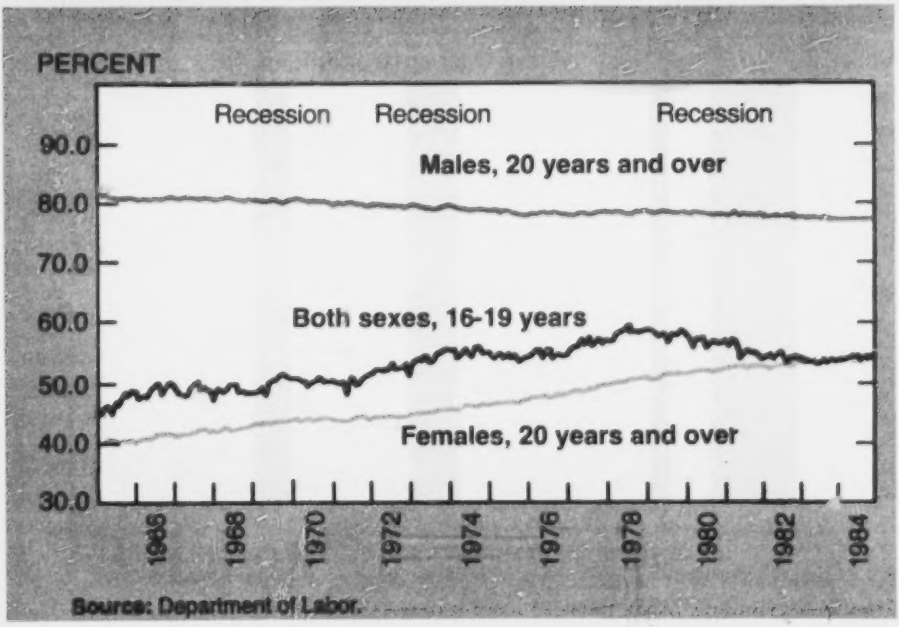
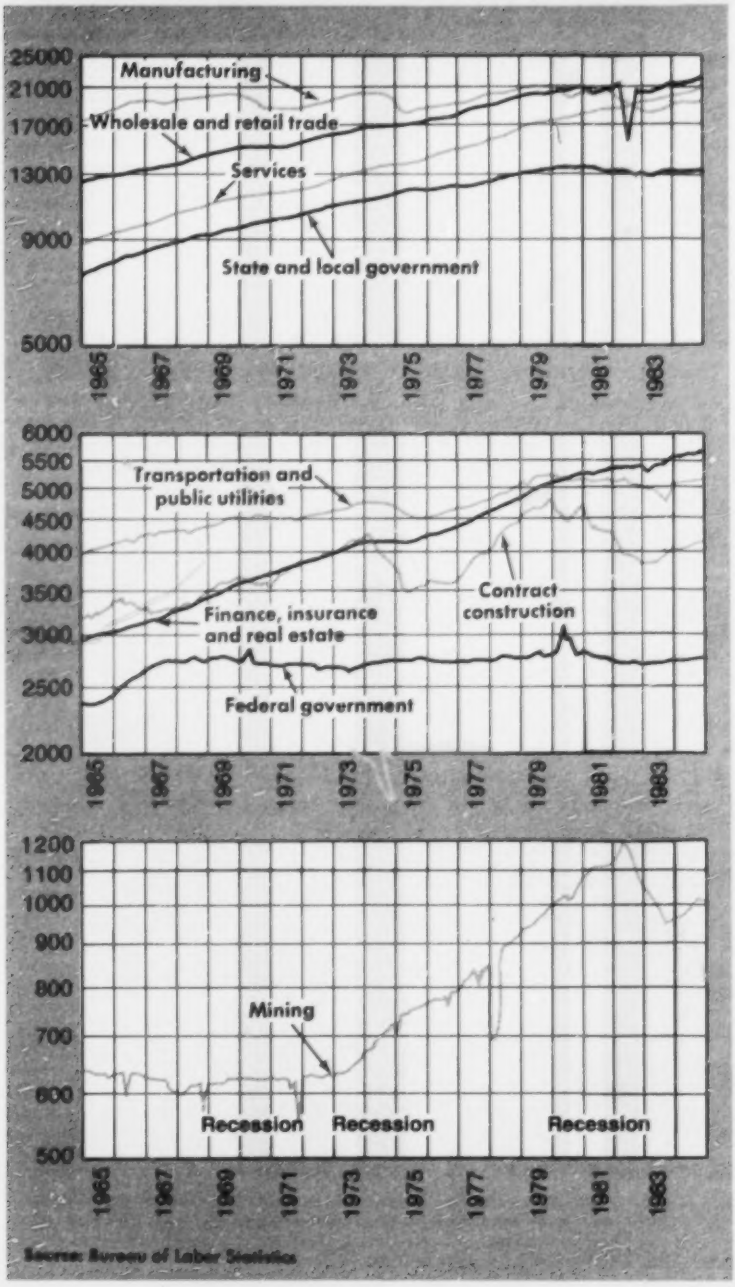


CHART 7

EMPLOYMENT BY INDUSTRY
1965-1984
(nonagricultural payroll, quarterly average, in thousands)



Unemployment

The civilian unemployment rate averaged 7.6% in 1984 comparing very favorably with the 9.6% average of monthly rates experienced in 1983. The rate for teenagers, however, averaged 18.9% still an improvement over 22.4% in 1983 (Charts 8, 9). The Help-Wanted Index, one indicator of current demand for new workers, reached its high of over 150 in 1978 (1967 = 100). It was at a ten-year low around 72 in 1982, and had rebounded to 83 by year-end 1982. At the end of 1984, it was approaching its previous high at 145 (Chart 9).

The Labor Force in the Future

The civilian labor force's projected growth to 125 million by 1990 will produce quite a different age distribution profile from that which developed during the 1970's and early 1980's (Chart 10). The

TABLE 5

EMPLOYED CIVILIANS 16 YEARS AND OVER BY OCCUPATIONAL GROUPS, YEAR-END 1982*, 1983 AND 1984

(In thousands)

	1982	1983	1984
I. Managerial and Professional Specialty...	23,618	24,185	25,431
A. Executive/Administrative.....	na	8,014	8,695
B. Managerial.....	na	3,081	3,254
C. Professional Specialists (Total)....	12,924	13,091	13,482
a. Teachers (all levels).....	4,260	4,223	4,266
b. Health Specialists.....	2,586	2,566	2,719
c. Engineers.....	1,447	1,553	1,559
d. Scientists.....	891	852	843
e. Legal Professions (Lawyers and judges).....	602	636	672
f. Other Professional Specialties..	3,138	3,261	3,423
II. Technical Sales and Administrative Support.....	31,302	32,038	32,903
A. Administrative Support.....	16,308	16,407	16,755
B. Sales Occupations.....	11,868	12,507	12,872
C. Technicians and Related Support.....	3,127	3,124	3,276
III. Service Occupations.....	13,443	14,170	14,340
A. Food Service.....	4,772	5,053	5,002
B. Janitorial.....	2,594	2,733	2,805
C. Health Service.....	1,691	1,772	1,709
D. Personal Service.....	1,701	1,891	2,027
E. Protective Service.....	1,617	1,692	1,716
F. Private Household Service.....	1,068	1,030	1,080
IV. Precision Production, Crafts, Repair....	11,373	12,741	13,270
V. Operatives.....	15,845	16,576	16,958
VI. Farming, Forestry and Fishing.....	3,230	3,092	3,148
Total.....	98,849	102,802	106,049

*Source: Bureau of Labor Statistics.
Note: Parts may not add to totals due to rounding.

proportion of 16-19 year olds in the labor force in 1990 will be approximatley 6.3%, compared with 7.0% today. The 20-24 year old age group's proportion will also decline to 11.4% from 14.1%. The 25-54 year old bracket will grow fr[illegible] 65.8% of the labor force to 71.0%. Both of the age groups over 55 will aiso comprise smaller proportions of the work force in 1990 than in 1983. This pattern is projected to continue through 1995.

CHART 8

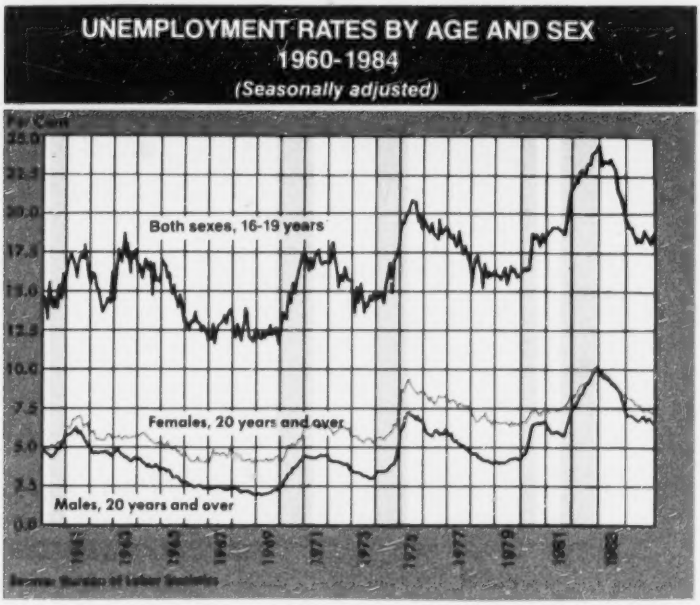


CHART 9

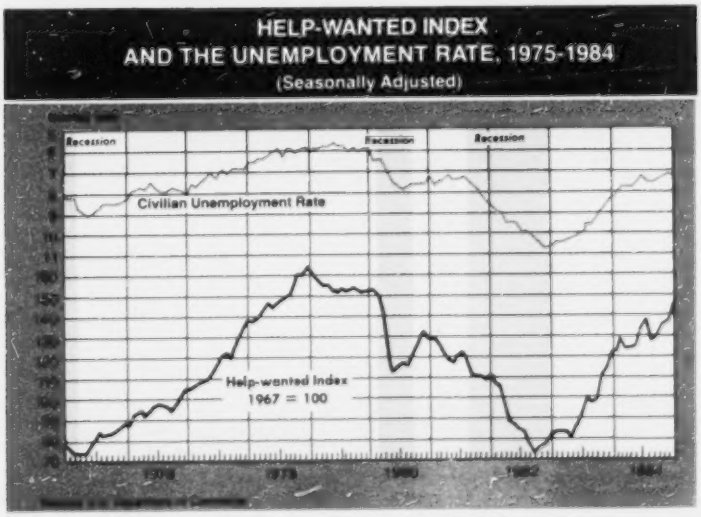
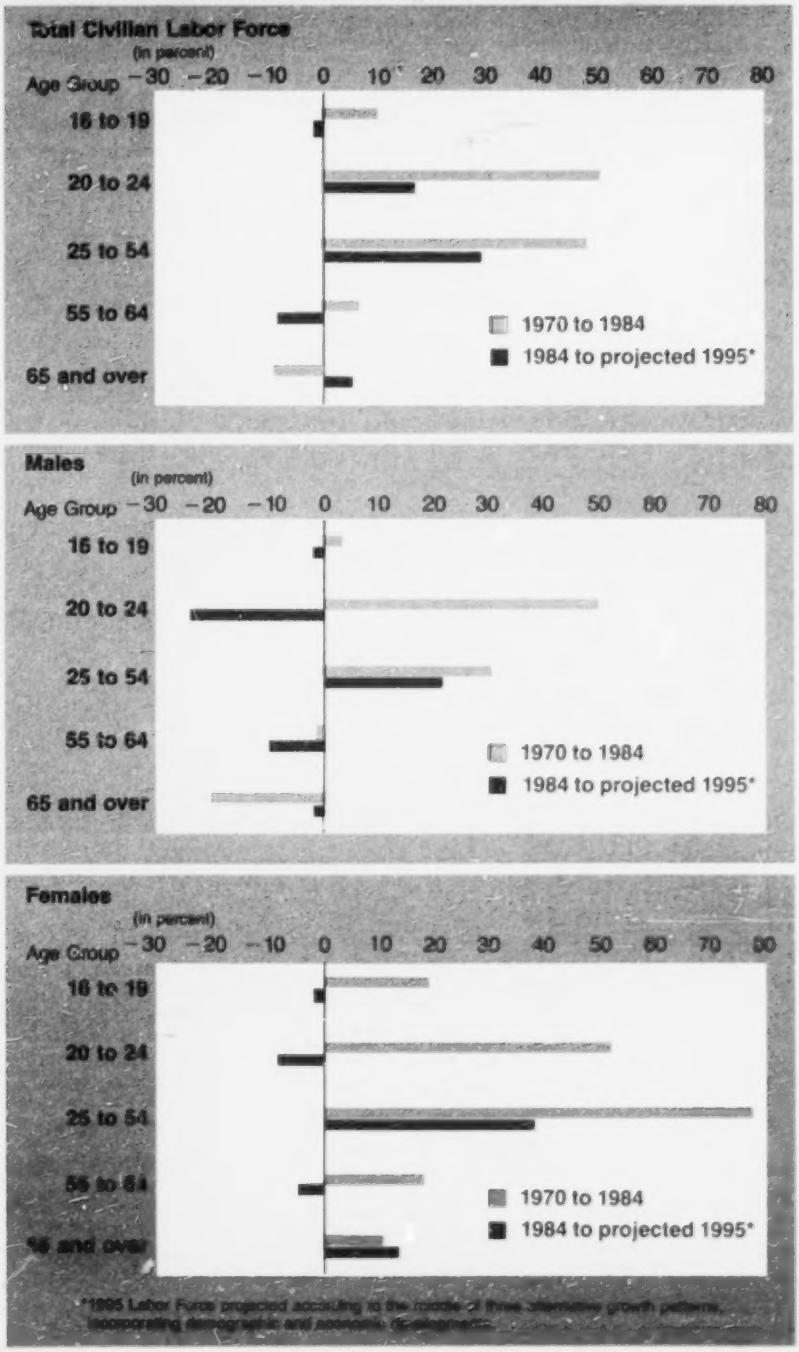


CHART 10

PERCENT CHANGES IN THE LABOR FORCE BY AGE, GROUP AND SEX, 1970-1983 AND 1984-1995 *



*1995 Labor Force projected according to the middle of three alternative growth patterns, incorporating demographic and economic assumptions.

CHAPTER 3

THE ECONOMY

The United States economy is the world's largest and provides one of the world's highest standards of living for its 236 million citizens. Generally, the size of an economy is measured in terms of its output or product, and the changes over time in this output are known as economic growth. In the United States, the Department of Commerce measures economic output and activity in the National Income and Product Accounts (NIPAs) and the Federal Reserve Board maintains the (FOFs) which, measures the stocks of assets and liabilities in the Flow of Funds Accounts.

The National Income and Product Accounts registered Gross National Product in 1984 of 3.7 trillion dollars, or

TABLE 6

DISTRIBUTION OF GROSS NATIONAL PRODUCT BY SECTOR
SELECTED YEARS

	1970	1982	1983	1984
HOUSEHOLDS (Personal Consumption Expenditures).....	62.6%	64.7%	65.2%	63.9%
BUSINESS (Gross Private Domestic Investment).....	14.5%	13.5%	14.3%	17.4%
GOVERNMENTS (Government Purchases of Goods and Services)..	22.2%	21.2%	20.7%	20.4%
NET EXPORTS (Exports minus imports)..	0.7%	0.6%	-0.3%	-1.7%
TOTAL	100.0%	100.0%	100.0%	100.0%
Gross National Product (billions).....	$992.7	$3,069.3	$3,304.8	$3,662.8

$3,662,800,000,000.00. The NIPA system divides the economy into four sectors; households, businesses, government(s) and foreign trade (usually shown on net exports). Table 6 shows the percentage distribution of GNP among the four sectors for the years 1970, 1982, 1983, and 1984 and Chart 11 shows the same information for 1970 and 1984. Both show that the consumer sector accounts for about ⅗ to ⅔ of GNP. It should be noted that the effect of the foreign trade sector has been somewhat unusual in the past 2 years. Prior to 1983, the U.S. was a net exporter of goods and services, meaning that we exported more than we imported (with that item making a positive contribution to GNP in the NIPAs). For 1983 and 1984, however, the U.S. has been a net importer, showing negative net exports. For 1984, the magnitude of the negative effect was much larger than the usual magnitude of its positive effect, suggesting the reason for growing national concern over huge trade deficit.

Chart 12 shows real (inflation-adjusted) GNP (in 1972 dollars) over a longer period, from 1929 to the present. Real output has grown a total of 420% in that period (a compound average rate of 3.041% per year for 55 years), and per-capita GNP has grown 162% (about 1.8% per year, compounded). Of course, the growth did not take place at steady rates of 3% or 1.8% per year, but was more volatile over the long run. The most marked of the fluctuations were caused by extraordinary events affecting the economy such as the Great Depression (1929-33) and the various wars (WWII, Korean, Vietnam) that had significant effects on economic activity.

CHART 11

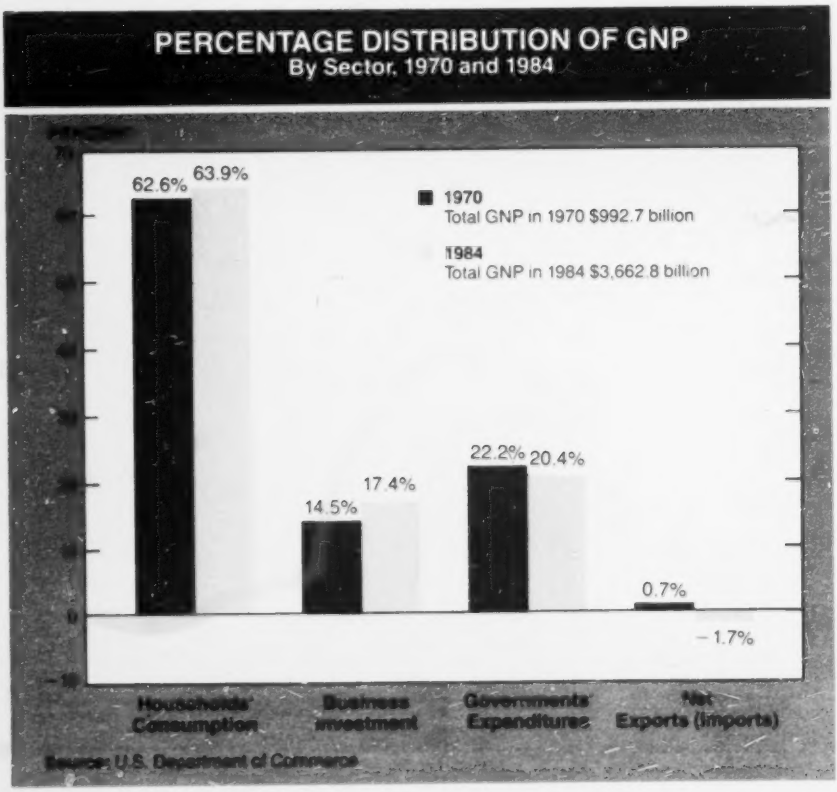
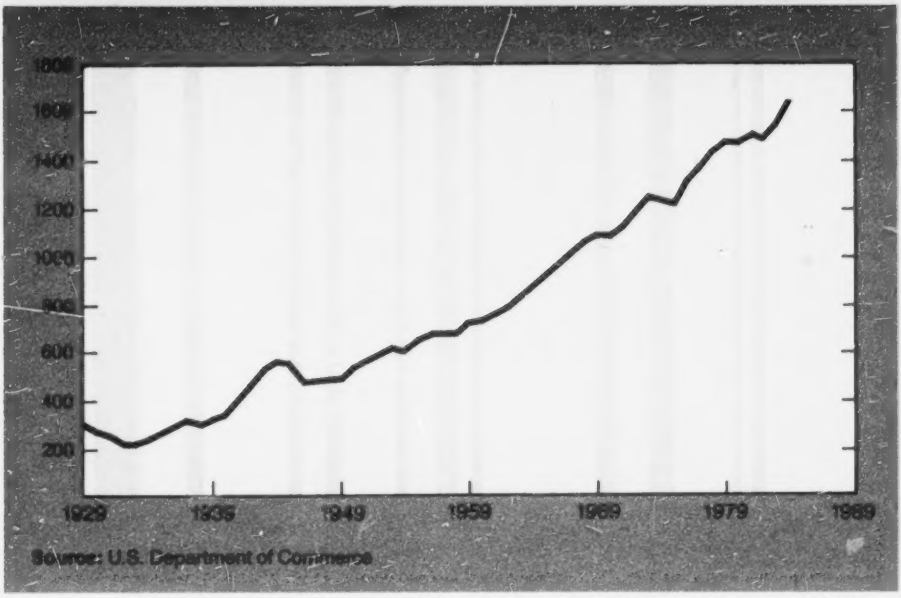


CHART 12

REAL GROSS NATIONAL PRODUCT, 1929-1984

In billions of 1972 dollars



Source: U.S. Department of Commerce

CHAPTER 4

CONSUMERS AND THEIR INCOME

A major driving force necessary for continuing economic growth is the income flow generated by the productivity of the economy. As we have seen, the expenditures of individuals make up a major part of GNP in the U.S. and their income characteristics are thus important also. The income received by individuals for their labor productivity, investment in capital (in anticipation of future productivity) and as transfer payments (payments for which no service is currently rendered) from government are the major components of personal income in the U.S.

Personal Income and its Sources

Personal income totaled $3,012.1 billion in 1984, for a gain of 9.8% over 1983 (Table 7). Among the principal components of personal income as shown in the table, the greatest percentage increase in 1984, as during 1983, was in proprietors' income (up 27%) although this is a very small part of total personal income. Income from rent, interest and dividends was the only other income type that grew faster than total income, at 13.7%, in strong contrast with its much lower 4.6% growth last year.

In part due to the methods used to determine benefits, during the early 1980's, transfer payments (income received by individuals, generally in monetary form, and for which no services are currently rendered) had been increasing faster than had income received by current producers. This imbalance caused some problems for governments, (which are generally the parties making these payments), especially at the federal level. Liberalized social security, veterans', and government pension and welfare benefits accounted for most of these rises. The increases have also been accentuated by the tying of automatic social security and government pension benefit raises to increases in the consumer price index. This tying arrangement has contributed to the difficulties in controlling the federal government's so called "entitlements programs" and in turn in controlling that portion of its massive deficit. The imbalance has improved somewhat in 1984. Income from transfers amounted to 11% of total personal income in 1972, 14.8% in 1983 and 13.8% in 1984. Net transfer payments (transfer payments less personal contributions for social insurance) were 7.4% of personal income in 1972, and 10.4% in 1983, and 9.4% in 1984.

Disposable Income

More important in determining consumers' expenditures than total personal in-

TABLE 7

SOURCES OF PERSONAL INCOME, 1977-1984

(In billions of dollars)

Year	Wages, Salaries and Related Income *	+ Proprietors' Income	+ Income from Rent, Interest and Dividends	+ Income from Transfer Payments**	- Personal Contributions for Social Insurance	= Personal Income
1977 ...	1,072.6	103.9	217.2	207.9	61.1	1,540.4
1978 ...	1,208.8	118.5	251.3	223.8	69.8	1,732.7
1979 ...	1,352.5	132.1	297.4	250.3	81.1	1,951.2
1980 ...	1,484.7	117.4	354.3	297.6	88.7	2,165.3
1981 ...	1,636.7	120.2	445.5	337.2	104.6	2,435.0
1982 ...	1,724.7	108.9	482.5	374.5	112.0	2,578.6
1983 ...	1,832.3	121.7	504.9	404.9	119.6	2,744.2
1984 ...	1,999.5	154.4	573.9	416.7	132.5	3,012.1

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

* Related income, which is called "other labor income" by the Department of Commerce, includes compensation for injuries, employer contributions under private pension and related programs, and other items such as the pay of military reservists and directors' fees.

** Transfer payments include benefit payments made under government (Federal, State and local) social security, unemployment and veterans' programs, and miscellaneous payments by business.

TABLE 8

DISPOSITION OF PERSONAL INCOME, 1977-1984

(In billions of dollars)

Year	Personal Income	- Tax and Nontax Payments	= Disposable Personal Income	- Personal Outlays	= Personal Saving
1977	1,540.0	226.4	1,314.0	1,236.0	78.0
1978	1,732.7	258.7	1,474.0	1,384.6	89.4
1979	1,951.2	301.0	1,650.2	1,553.5	96.7
1980	2,165.3	336.5	1,828.9	1,718.7	110.2
1981	2,435.0	387.4	2,047.6	1,912.4	135.3
1982	2,578.6	402.1	2,176.5	2,051.1	125.4
1983	2,744.2	404.2	2,340.1	2,222.0	118.1
1984	3,012.1	435.3	2,576.8	2,420.7	156.1

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

come is the amount of income over which individuals have discretion, specifically their income after taxes and other required payments to government. Personal tax and non-tax payments for the year 1984 at $435.3 billion were 14.5% of total personal income (Table 8), down from 14.7% in 1983 and a recent high of 15.9% in 1981. Remaining after taxes in 1984 was disposable personal income of $2,576.8 billion, up 10.1% from 1983.

Real Income

One of the most freqently used measurements of the effect of price increases on income uses the Department of Commerce's price deflators to determine real income based on 1972 price levels. The derived rates of increase in personal income are shown in Chart 13. While total personal income in 1984 rose 9.8% and income after taxes rose 10.1% in current dollars, when adjusted for price changes by the personal consumption expenditures deflator, the rise in disposable personal income in 1984 was just 6.7%. When account is taken of population changes, 1984 real per capita disposable personal income at $4,940 (in 1972 dollars) was 5.8% higher than the $4,670 in 1983. This increase compares with one in 1983 of 2.5%.

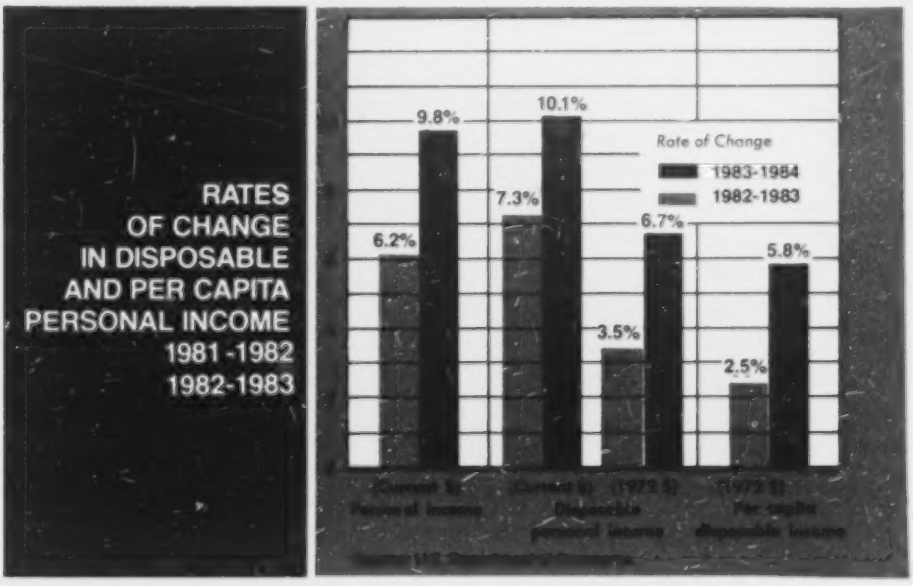
Households and Families

The Census Bureau defines a household as "all of the persons who occupy a house, an apartment, or other group of rooms, or a room which constitutes a housing unit," whereas a family is defined as "a group of two or more persons related by blood, marriage or adoption and residing together." A family is thus essentially a sociological unit, whereas a household is an economic unit. It is the economic entity which is most often the primary unit of consumption for many goods and services, especially housing, household services, consumer durables, and also frequently for food.

Household Income

Median household income (before tax and nontax payments) in the United States was $20,885 in 1983, the latest year for which data are available from the Census Bureau. Mean household income was

CHART 13



$25,401 (Table 9).

As shown in Chart 14, household income tends to rise until the householder ("head of household") reaches late middle age, and to decline thereafter. By age of householder, the mean income in 1983 (total income for the group divided by the number in the group) ranged from $15,451 for households in which the head was under 25 years of age to $34,203 for households headed by a person between 45 and 54 years of age, back down to only $16,386 for households in which the householder was 65 years of age or older (and most often retired).

Education of the householder is also closely related to household income. The largest single educational group is that in which the householder has completed high school but gone no further in school. In 1983, this group comprised 35.6% of all households; mean income was $23,688, just below the overall household average. At one extreme, where the householder

TABLE 9

SELECTED INCOME CHARACTERISTICS OF HOUSEHOLDS - 1983*

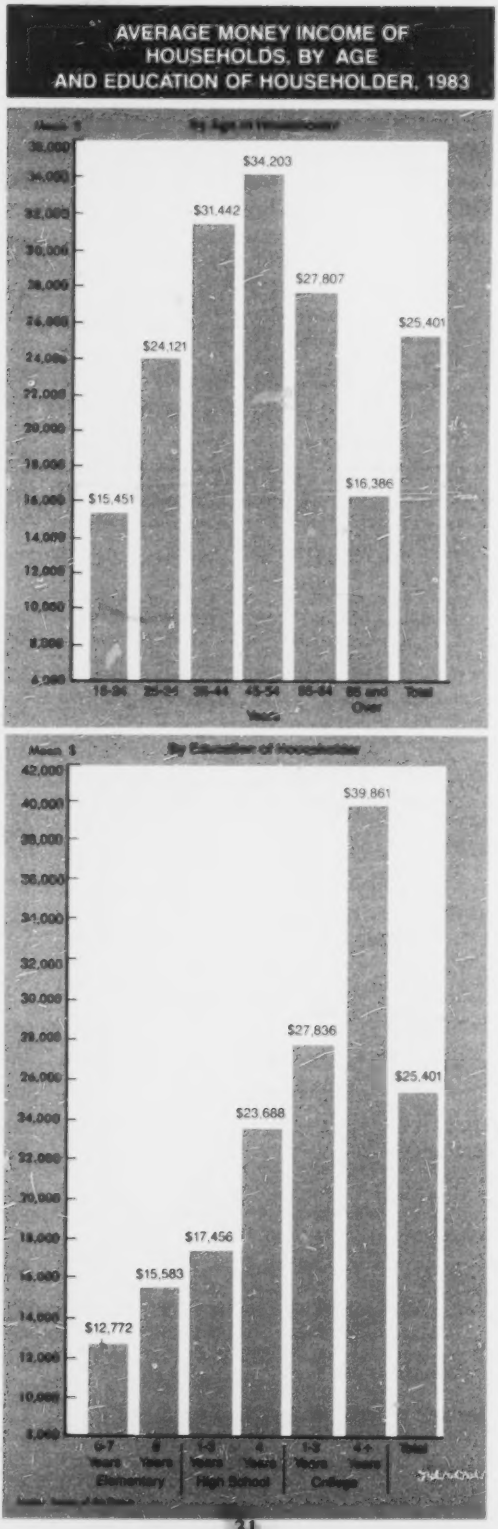
	Thousands of Households	Mean Household Income	Aggregate Income (In billions of dollars) (col. 1 x col. 2)
All Households	85,407	$25,401	$2,169.4
Type of Household			
Male Householder	59,361	$29,550	$1,754.1
Female Householder	26,046	$15,946	$415.3
Number in Household			
One	19,954	$14,162	$282.6
Two	26,890	$25,524	$686.3
Three	15,134	$29,338	$444.0
Four	13,593	$32,702	$444.5
Five or more	9,836	$31,720	$312.0
Type of Residence			
Nonfarm	83,589	$25,486	$2,130.3
Farm	1,818	$21,534	$39.1
Inside metropolitan area ..	58,546	$27,164	$1,590.3
Outside metropolitan area .	26,861	$21,560	$579.1
Owner occupied	55,157	$29,647	$1,635.2
Renter occupied including no cash rent	30,250	$17,661	$534.2
Region			
Northeast	18,199	$26,279	$478.3
North Central	21,456	$24,990	$536.2
South	28,809	$24,233	$698.1
West	16,943	$26,966	$456.9

Source: Bureau of the Census, AFSA

Note: Parts may not add to totals due to rounding.

* As of March 1984.

CHART 14


AVERAGE MONEY INCOME OF HOUSEHOLDS, BY AGE AND EDUCATION OF HOUSEHOLDER, 1983
$15,451
$24,121
$31,442
$34,203
$27,807
$16,386
$25,401
$12,772
$15,583
$17,456
$23,688
$27,836
$39,861
$25,401

has completed 4 or more years of college, 20.4% of the households had mean income 56.9% above that for all households. At the other extreme, where the householder had completed less than 8 years of school, 8.1% of the households, had mean income 49.7% below that for all households.

Other characteristics of households that reveal varying levels of household income are the number of persons in the household, type of residence (farm or nonfarm, inside or outside metropolitan area, owner or renter occupied), and region of the country (Table 9).

Family Income

The Census Bureau estimates that there were 62 million families in the United States in 1983 (Table 10). This compares with the estimated 85 million "households" referred to above.

Average family income, not surprisingly, tends to be higher than average household income, which includes various unrelated individuals in the base used to calculate the average(s). The median income of all families in the United States was $24,580 in 1983 and the mean was $28,638 (Table 10). Median income in 1983 was 4.9% above 1982.

In addition to the economic problems of recession and high- level inflation during the 1970's and early 1980's which would affect both households and families, there have been gradual but widespread changes in family structure which have tended to exert a downward pressure on family income levels over the past several years. From 1970 to 1982, for example, there has been a substantial increase in the proportion of families maintained by a female householder with no husband present (from around 10% to almost 16%). Since median incomes in this group are by far the lowest of all family types, this group would exert a downward pressure on the overall average. There has also been a sharp increase in the poverty rate since the late 1970's (from 11.4% in 1978 to 15.2% in 1984).

TABLE 10

DISTRIBUTION OF FAMILIES AND UNRELATED INDIVIDUALS BY TOTAL MONEY INCOME IN 1983

	Families		Unrelated Individuals	
	Thousands	Percent	Thousands	Percent
Total Money Income				
Under $5,000	3,565	5.8%	6,811	23.3%
$5,000 to $9,999	6,328	10.2%	7,144	24.4%
$10,000 to $14,999	7,207	11.6%	5,164	17.7%
$15,000 to $19,999	7,342	11.8%	3,653	12.5%
$20,000 to $24,999	7,109	11.5%	2,398	8.2%
$25,000 to $29,999	6,457	10.4%	1,526	5.2%
$30,000 to $34,999	5,632	9.1%	937	3.2%
$35,000 and over	18,356	29.6%	1,624	5.6%
Total	61,997	100.0%	29,257	100.0%
Memo				
Median Income	$24,580	—	$10,563	—
Mean Income	$28,638	—	$13,726	—

Source: Bureau of the Census.

Note: Parts may not add to totals due to rounding.

*As of March, 1984.

CHAPTER 5

DISPOSITION OF PERSONAL INCOME: CONSUMERS' SPENDING AND CAPITAL FORMATION

The spending decisions of consumers determine both the level and composition of U.S. economic output. The gross national product, defined as the value of goods and services produced, was $3,662.8 billion in 1984, up 10.8% from the previous year (Table 11). As seen earlier (Chart 11) of the gross total national product, personal consumption expenditures amounted to almost 64%.

The disposition of personal income is detailed in Chart 15 and in Table 12. Individuals' income is disposed of in three broad categories. Some portion automatically goes for taxes; in 1984 this portion constituted 14.5% of income ($435.3 billion). A large part is spent out-of-pocket for consumption and other purposes, the whole of which is known as personal outlays. The remainder is saved in various forms.

Personal Outlays

Personal outlays (defined by the Department of Commerce as including personal consumption expenditures, interest payments by individuals and transfers abroad by individuals) rose nearly proportionately with disposable personal income during the 1960's. During recessions or pauses in business growth when durable goods spending is greatly reduced, consumer outlays tend to drop off as a percent of disposable income and to increase again during strong recovery periods. Personal outlays as a portion of disposable personal income since 1970 have varied between 91.4% (1973, 1975) and 95.1%, a high reached just last year (1983). The proportion in 1984 was slightly lower, at 93.9%, which is still in the upper area of the recent range.

Personal Consumption

Personal consumption expenditures, a portion of personal outlays, are that part of individuals' outlays that go for current purchase or consumption of goods and services (interest paid to business is here not considered a purchase of a service). All current expenditures for food, clothing, rent, entertainment, travel, education and the like are considered personal consumption expenditures. In 1984, 96.7% of personal outlays were for personal consumption (Chart 15). At $2,341.8 billion, they were 8.6% above the rate for 1983. This healthy growth evidences the effects of another full year of recovery. Of the total, expenditures for durable goods comprised about 14% and were up a very healthy 13.9% from the previous year. Expenditures for nondurables comprised about

37% of consumption spending and rose 6.9% over 1983. Expenditures for services made up almost half of personal consumption spending but grew at a slower pace than in any of the previous seven years at 8.5%. Auto sales, reflecting a major component of consumer durables, rose to about 10.4 million units in 1984, up 13% from 1983. Sales of imports rose only 2.3% from 2.386 million to 2.442 million. Domestic unit sales increased 17% to almost 8 million. (Sales of domestic cars increased as a portion of total sales from 72% in 1982 to 76.5% in 1984).

Personal Saving

For all sectors, the portion of income neither paid in taxes nor spent ("outlayed") for consumption purpose constitutes saving. Since 1970, saving in the consumer sector has ranged from 5.0% of disposable personal income (in 1983) to 8.6% of DPI (in 1973). This range is consistent with historical savings rates in the U.S. since 1929.

Individuals saved a total of $156.1 billion in 1984, yielding a savings rate of almost 6.1%. The actual amount saved was 32% higher than the $118.1 billion saved in 1983, and the savings rate was a full percentage point higher.

Measuring Consumer Behavior

Awareness of the complexities as well as the significant economic impact of personal income and consumers' spending

TABLE 11

GROSS NATIONAL PRODUCT BY SECTOR 1977-1984

		Personal Consumption Expenditures						
Year	Total GNP	Durable Goods	Non-durable Goods	Services	Total	Government Purchases	Domestic Investment	Net Exports
	(Billions of current dollars)							
1977	1,918.3	178.2	478.8	547.3	1,204.4	393.8	324.1	-4.0
1978	2,163.9	200.2	528.2	618.0	1,346.5	431.9	386.6	-1.1
1979	2,417.8	213.4	600.0	693.7	1,507.2	474.4	423.0	13.2
1980	2,631.7	214.7	668.8	784.5	1,668.1	537.8	401.9	23.9
1981	2,954.1	236.1	733.9	887.1	1,857.2	595.7	474.9	26.3
1982	3,069.3	245.1	757.5	982.2	1,984.9	650.5	414.9	19.0
1983	3,304.8	279.8	801.7	1,074.4	2,155.9	685.5	471.6	-8.3
1984	3,662.8	318.8	856.9	1,166.1	2,341.8	747.4	637.8	-64.2
	(Billions of constant 1972 dollars)							
1977	1,369.7	138.0	333.4	393.0	864.3	269.2	214.2	22.0
1978	1,438.6	146.8	344.4	412.0	903.2	274.6	236.7	24.0
1979	1,479.4	147.2	353.1	427.3	927.6	278.3	236.3	37.2
1980	1,475.0	137.5	355.6	438.8	931.8	284.3	208.5	50.3
1981	1,513.8	141.2	362.5	453.1	956.8	286.5	227.6	43.0
1982	1,480.0	140.5	363.1	459.8	963.3	292.7	194.3	29.7
1983	1,534.7	157.5	376.3	475.4	1,009.2	291.9	221.0	12.6
1984	1,639.3	178.0	393.5	490.8	1,062.4	302.1	289.9	-15.0

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

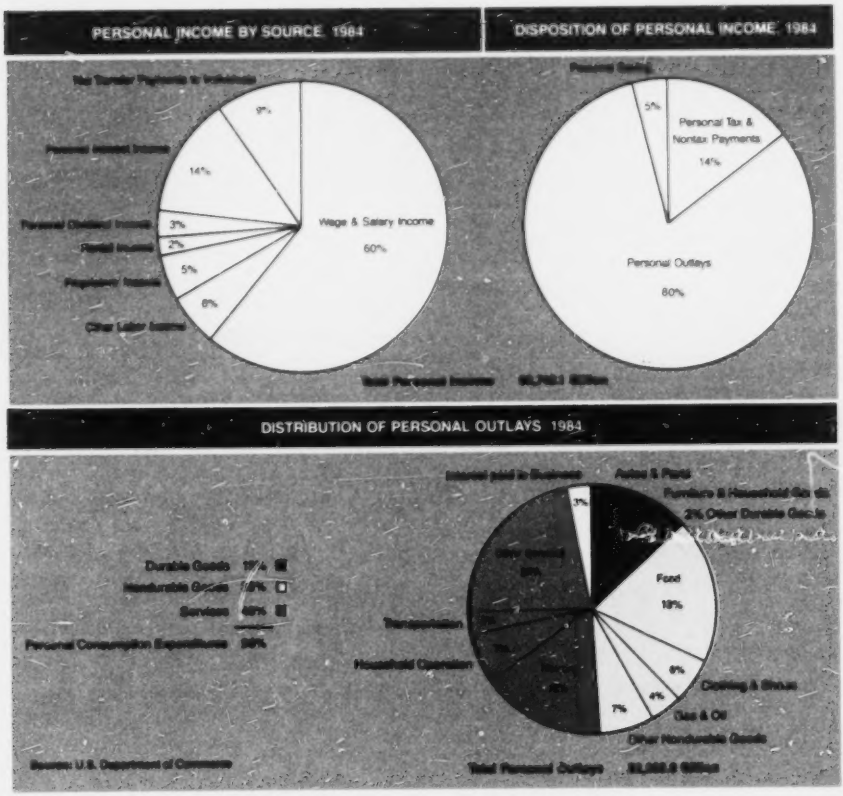
and saving decisions has given rise to the development of indicators designed to measure with precision various characteristics of the consumer sector. With the constant refinement of such indicators, changing consumer attitudes toward goods, services, credit, financial security, and changing family needs and values can be better followed and understood.

The University of Michigan's Consumer Sentiment Index is one such indicator. Chart 16 shows the index (plotted quarterly prior to 1978 and monthly thereafter) from 1972 through 1984. The index has tended to decline prior to previous downturns in the business cycle, and therefore may be useful in loosely predicting the future course of the economy. At 92.9% of its 1966 level, the index in December 1984 was below the average for the year of 97.5% and even below the year-end 1983 level. The average for 1984, however, was a full ten points above the 1983 annual average.

Indexes of Consumer Financial Behavior, developed by the American Financial Services Association, highlight recent trends in consumer income and its uses and thus assist in the task of projecting the effects of such trends in the overall economy (Chart 17).

The indexes reveal personal income at 325% of its 1972 level in the last quarter of 1984, personal taxes at 320%, disposable income at 326% (keeping pace with total personal income) and personal saving at a fairly strong 310%. The indexes for consumer expenditures were: durables, 294%; nondurables, 288%; and services, 370%. The Federal Reserve Board series on consumer installment credit extended and liquidated have been discontinued,

CHART 15



but the index for consumer installment credit outstanding in the fourth quarter reached 361% of the 1972 level.

Consumers as Capitalists

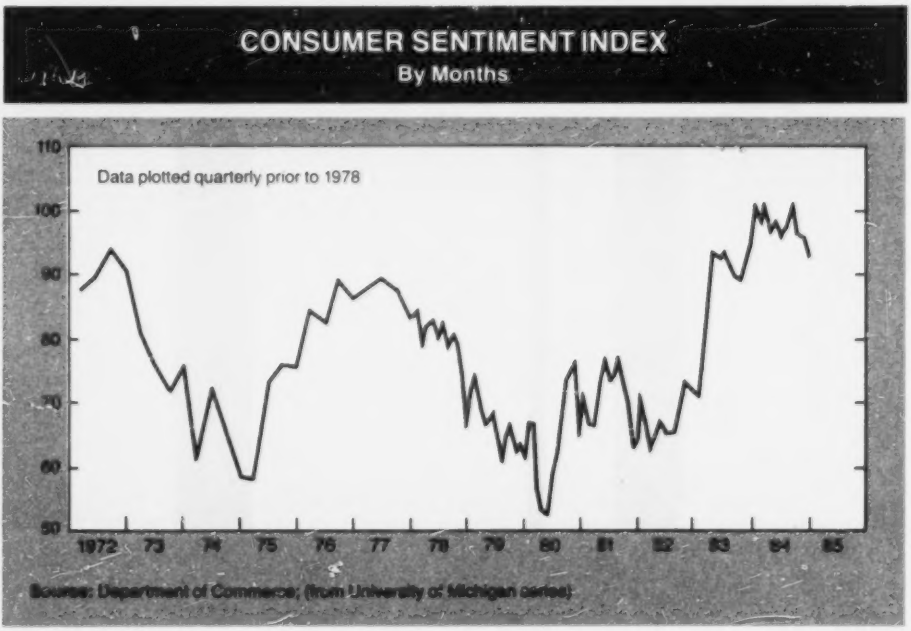
To the extent that they provide a large portion of the funds borrowed by commercial enterprises (through their saving and investment), consumers have become capitalists in the economic sense. In addition to their ownership of the means of production in the form of corporate stocks and bonds, they generally own the physical capital which satisfies their own needs for living quarters, transportation, household services and the like. (The most recent data on home ownership are for 1983, when almost 65% of all households owned the unit in which they lived).

Capital Formation

Capital formation (in physical terms) may be defined as the addition of property and goods that promote the production of other goods and services during a time period to the existing stock of such property and goods. In this sense, owner-occupied houses and durable goods purchased by consumers during a year are similar in nature to investment by businesses. Net capital formation (capital formation after allowing for concurrent consumption of capital) as estimated in the Flow of Funds accounts in 1984 was approximately $318.7 billion (Table 13). Net capital formation by business approximated $185.1 billion and by consumers $133.6 billion—$48.7 billion for housing and $84.9 billion for other durables. All of these figures are well above those for 1983.

In order to purchase capital items (homes, automobiles, television sets, refrigerators and other consumer durables) which require a large initial outlay, consumers often borrow or "finance" them in order to pay over some period of time as they "consume" the services produced by the item. Thus just as a corporation sells debentures to finance the purchase of goods—producing machines and just as

CHART 16



the local school district may float a bond issue to build a school, consumers, in a similar manner, borrow on credit to finance the purchase of capital goods. When financing this way, the corporation commits part of its future earnings to repayment of the debentures, the school district commits part of its future tax receipts to repayment of the bond issue, and the consumer commits part of his or her future income to repayment of a mortgage (when financing a home) or to repayment of installment credit (when borrowing for other purposes). The financial markets provide the mechanism for making funds available, by collecting savings, which are then loaned out in financing such investment.

CHART 17

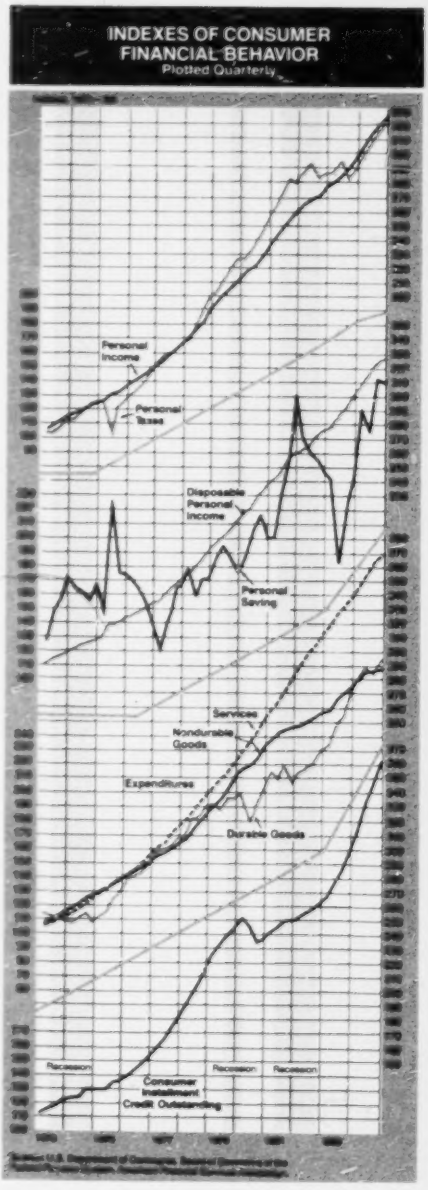


TABLE 12

PERSONAL INCOME AND ITS DISPOSITION, 1984

(In billions of dollars)

TOTAL PERSONAL INCOME	$3,012.1
Wages and Salary	1,804.0
Other Labor Income	195.5
Proprietors' Income	154.4
Rental Income	62.5
Dividend Income	77.7
Interest Income	433.7
Net Transfer Payments	284.2
DISPOSITION OF PERSONAL INCOME	
Personal Tax & Nontax Payments	435.3
Personal Outlays	2,420.7
Personal Consumption Expenditures	2,341.8
Durable Goods	318.8
Autos & Parts	149.8
Furniture, Household Goods	117.0
Other Durables	51.9
Nondurable Goods	856.9
Food	443.6
Clothing & Shoes	140.2
Gas & Oil	91.4
Other Nondurables	181.7
Services	1,166.1
Housing	397.9
Household operation	164.0
Transportation	78.3
Other Services	525.9
Interest paid to business	77.8
Personal transfer payments abroad	1.2
Personal Saving	156.1

Source: Department of Commerce.

TABLE 13

CAPITAL FORMATION, 1979-1984

(In billions of dollars, seasonally adjusted annual rates)

	1979	1980	1981	1982	1983	1984
Gross Capital Formation	636.4	616.6	719.6	660.0	751.4	955.5
Business (Gross domestic investment minus household purchases of residences and condominiums)	331.9	326.7	407.5	355.4	384.8	530.9
Consumer	304.5	289.9	312.1	304.6	366.6	424.6
Housing (Household purchases of residence and condominiums)	91.1	75.2	76.7	59.5	86.8	106.1
Durables	213.4	214.7	235.4	245.1	279.8	318.5
Capital Consumption Allowances	416.9	475.2	526.6	568.4	595.4	636.8
Business (Capital consumption minus owned occupied homes)	216.9	249.1	281.8	307.7	323.9	345.8
Consumer	200.0	226.1	244.8	260.7	271.5	291.0
Housing	39.1	44.1	48.5	51.1	53.2	57.4
Durables	160.9	182.0	196.3	209.6	218.3	233.6
Net Capital Formation	219.5	141.4	193.0	91.6	156.0	318.7
Business	115.0	77.6	125.7	47.7	60.9	185.1
Consumer	104.5	63.8	67.3	43.9	95.1	133.6
Housing.....	52.0	31.1	28.2	8.4	33.6	48.7
Durables	52.5	32.7	39.1	35.5	61.5	84.9

Source: Federal Reserve Flow of Funds Accounts Series.
Note: Parts may not add to totals due to rounding.

CHAPTER 6

CONSUMERS' ASSETS AND LIABILITIES: CONSUMERS AS FINANCERS

By virtue of the widely distributed discretionary spending power of consumers in the United States, this group, through its spending, saving and investing decisions, plays a significant role in determining the course and level of future economic activity in this country. Consumers' spending constitutes the largest portion of the demand for consumption of the output of this economy, as we have already seen. Through their saving and investment habits, consumers in the aggregate also provide a share of the funds borrowed by businesses to engage in production, and a good portion of the funds borrowed by governments as well.

In addition, consumers finance government (although not at their own discretion) via taxes and contributions to social insurance funds (most notably the various Social Security programs).

In 1984, individuals were taxed and made payments to social insurance funds as required by law at a rate of 20.8% of their earnings from current activity (earnings from current activity being personal income minus transfer payments received plus payments to social insurance funds). This ratio of tax and nontax payments to current earnings has now declined for 3 consecutive years and is well below the 1981 portion of 22.4% (Table 14). Taxes paid by individuals in 1984 of $435.3 billion in nominal dollars were 7.7% more than taxes paid in 1983. As in the previous 2 years, this increase is in some sense nominal only, however, as the Reagan tax cut has caused a drop in the percent of current earnings paid in taxes from 17.6% in 1981 to 15.9% most recently. Individuals' payments to social insurance funds increased from $119.6 billion in 1983 to $132.5 billion in 1984, a 10.8% increase.

The Flow of Funds Account maintained by the Federal Reserve Board may be used. To show the role played by various sectors in overall saving and investment. The consumer sector is represented in the Flow-of-Funds accounts as "households" and in this context the two terms will be used interchangeably. The household sector in the Flow-of-Funds series includes not only households but also nonprofit organizations serving individuals such as foundations, private schools and hospitals, labor unions, and charitable, welfare and religious organizations. The effect of the inclusion of these organizations is minor, however.

The household sector's net saving in 1984 amounted to $305.8 billion, a 26% increase over the year, comprised largely of a 33% increase in personal saving (Table 15). The increase of 38% in net durables in consumption also contributed a major portion of the overall increase. Add-

ing consumption of capital to net saving, gross saving increased to $606.4 billion, one of the larger increases in the past several years at $83.2 billion (15.9%).

Households' total investment grew by the same amount in 1984, except for the discrepancy that arises from difficulties in the date-collection process. Net financial investment was $189.9 billion.

The funds made available through households' saving and investment might be termed their "discretionary" funding of government and business, in contrast to their nondiscretionary financing of government through taxes.

Consumers as Debtors

Concurrent with their accumulation of assets, both real and financial, consumers' as a group are also borrowers. Consumers' debt has averaged about 32% of total credit market debt outstanding in the past 5 years. In 1984, households owed $2,133.8 billion in credit market debt outstanding, 31% of debt owed by all sectors combined (Table 16). The level of total consumer debt increased faster than other debt during the 1950's. During late 1960's and early 1970's the debt of private business

TABLE 14

FINANCING OF GOVERNMENT BY INDIVIDUALS 1979-1984

(In billions of dollars except as indicated by percent)

	1979	1980	1981	1982	1983	1984
Federal Government Receipts	493.6	540.9	624.8	616.7	641.1	704.8
State and Local Government Receipts*	271.5	297.4	332.1	358.1	391.9	430.4
Total Government Receipts	765.1	838.3	956.9	974.8	1,033.0	1,135.2
Received from Individuals:						
In billions of dollars	382.1	425.1	492.2	515.5	523.8	567.8
Percent of total	50.0%	50.7%	51.4%	52.9%	50.7%	50.0
Total Tax and Nontax Receipts of All Governments	578.2	634.6	720.1	723.5	760.3	829.2
Received from Individuals:						
In billions of dollars	301.0	336.5	387.7	404.1	404.2	435.3
Percent of total	52.1%	53.0%	53.8%	55.9%	53.2%	52.5%
Total Social Insurance Fund Contributions	186.9	203.7	236.8	251.3	272.7	306.0
Received from individuals:						
In billions of dollars	81.1	88.7	104.5	111.4	119.6	132.5
Percent of total	43.4%	43.5%	44.1%	44.3%	43.9%	43.3%
Income of Persons from Current Earnings (Personal Income Minus Transfer Payments Plus Payments to Social Insurance Funds)	1,782.0	1,956.4	2,196.7	2,319.9	2,458.8	2,729.9
Percent paid to government for:						
Taxes, etc.	16.9%	17.2%	17.6%	17.4%	16.4%	15.9%
Social insurance funds	4.6%	4.5%	4.8%	4.8%	4.9%	4.9%
Total.....	21.5%	21.7%	22.4%	22.2%	21.3%	20.8%

Source: Department of Commerce.

Note: Parts may not add to totals due to rounding.
* Less Federal grants-in-aid.

generally rose much faster than that of consumers or government. In 1984, consumer debt rose 13% over its 1983 level, faster growth than the 10.2% that occurred during 1983. Business and government debt increased 13.4% and 15.2% respectively.

Consumers' Assets and Liabilities

Combining consumers' liabilities and assets, both real and financial, makes it possible to look at the "balance sheet position" of American households (Chart 18). Total financial assets of $8,959.6 billion and tangible assets of $5,097.6 billion brought total assets to just over $14 trillion. Tangible assets included $2.4 trillion in the value of owner-occupied housing, about $1.3 trillion in the land on which this housing stood, and a further $1.2 trillion in the value of durable goods. Credit market debt (as discussed above) combined with other miscellaneous liabilities adds to total liabilities of $2,223.8 billion (Table 17).

TABLE 15

SAVING AND INVESTMENT BY HOUSEHOLDS, 1979-1984

(In billions of dollars, seasonally adjusted annual rates)

	1979	1980	1981	1982	1983	1984
Gross saving	380.9	413.3	472.8	492.2	523.2	606.4
Net saving	174.5	180.0	220.71	223.1	242.7	305.8
Personal saving	96.7	110.2	137.4	136.0	118.1	156.8
Credit from government insurance	24.4	35.3	41.0	49.2	58.7	57.5
Capital gains dividends	0.9	1.8	2.7	2.4	4.4	6.6
Net durables in consumption	52.5	32.8	39.1	35.5	61.5	84.9
Capital consumption	206.4	233.2	252.7	269.1	280.4	300.6
Gross investment	406.5	468.4	527.4	565.9	580.9	654.2
Capital expenditures (homes, durables, etc.)	328.0	323.6	341.2	331.3	400.4	464.2
Net financial investment	78.5	144.8	186.2	234.6	180.5	189.9
Net acquisition of financial assets	261.9	276.9	316.5	335.5	377.5	433.4
Less net increase in liabilities	-183.3	-132.1	-130.3	-100.9	-197.0	-243.5
Discrepancy (saving-investment)	-25.6	-55.1	-54.6	-73.7	-57.7	47.8

Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.

Subtracting liabilities from assets yields the net worth, or wealth of households. In 1984, household net worth was estimated at $11,833.4 billion, up 5.9% from 1983. Liabilities increased at a faster rate than did assets (12.6% vs 6.9%), causing various ratios of assets to liabilities to fall slightly (Table 18).

TABLE 16

TOTAL CREDIT MARKET DEBT OWED BY SECTOR
1979-1984

(In billions of dollars)

	1979	1980	1981	1982	1983	1984
PUBLIC SECTOR	1,175.0	1,316.3	1,457.1	1,714.6	2,005.6	2,311.3
U.S. Government	663.6	742.8	830.1	991.4	1177.9	1,376.8
State and Local Governments	279.6	296.9	303.0	334.3	371.0	404.0
U.S. Government Related Financial Sectors	231.8	276.6	324.0	388.9	456.7	530.5
PRIVATE SECTOR	2,893.9	3,159.7	3,483.0	3,697.7	4,023.9	4,562.4
Business	1,531.4	1,672.7	1,863.8	1,985.6	2,136.4	2,428.6
Financial Business	232.9	251.0	287.7	294.5	317.6	372.3
Nonfinancial Business	1,298.5	1,421.7	1,576.1	1,691.1	1,818.8	2,056.3
HOUSEHOLDS (Consumer Sector)	1,362.5	1,487.0	1,619.2	1,712.1	1,887.5	2,133.8
TOTAL DOMESTIC CREDIT MARKET DEBT	4,068.9	4,476.0	4,940.1	5,412.3	6,029.5	6,873.7
Households' Portion of Total Credit Market Debt	33.5%	33.2%	32.8%	31.6%	31.3%	31.0%

Source: Federal Reserve Board

TABLE 17

BALANCE SHEET OF THE HOUSEHOLD SECTOR* 1980-1984

(End of period in billions of dollars)

	1980	1981	1982	1983	1984
ASSETS					
1. Financial Assets (Subtotal).....	6,448.1	6,917.4	7,520.7	8,293.8	8,959.6
a. Demand Deposits and Currency ..	264.0	299.4	315.9	355.7	386.5
b. Time and Savings Accounts.....	1,140.2	1,187.1	1,323.8	1,537.6	1,688.6
c. Money Market Fund Shares	74.4	181.9	206.6	162.5	209.7
d. Life Insurance and Pension Fund Reserves.....	1,075.5	1,166.8	1,355.5	1,652.4	1,681.8
e. Government Securities.....	240.2	264.8	277.3	328.0	406.4
f. Corporate and Foreign Bonds ...	58.3	50.4	45.7	45.8	40.2
g. Corporate Stock at Market Value	1,188.2	1,134.3	1,274.8	1,466.2	1,492.5
h. Equity in Noncorporate Business	1,916.1	2,091.1	2,143.4	2,236.3	2,351.2
i. Other Financial Assets (net) ..	491.2	541.6	577.7	509.3	702.7
2. Tangible Assets 1/ (Subtotal)....	4,029.2	4,456.7	4,552.1	4,852.4	5,097.6
a. Owner-occupied Housing	1,904.2	2,078.4	2,108.2	2,220.3	2,365.1
b. Land 2/.....	937.0	1,105.6	1,122.7	1,235.3	1,253.9
c. Consumer Durable Goods	900.4	1,055.5	1,095.0	1,163.7	1,235.5
d. Other Tangible Assets 3/.....	207.6	217.2	226.2	233.1	243.1
3. TOTAL ASSETS.....	10,477.3	11,374.1	12,072.8	13,146.2	14,057.2
4. TOTAL LIABILITIES.....	1,544.3	1,679.3	1,778.7	1,975.7	2,223.8
a. Home Mortgages	967.5	1,051.0	1,096.9	1,200.1	1,332.2
b. Consumer Credit	390.0	416.4	441.7	493.0	577.5
c. Bank Loans, Insurance Loans, et	186.8	211.9	240.1	282.6	314.1
5. NET WORTH (Line 3 minus Line 4)..	8,933.0	9,694.8	10,294.1	11,170.5	11,833.4

Source: Federal Reserve Board.

Note: Parts may not add to totals due to rounding.

* Includes households, personal trusts and non-profit organizations.

1/ Tangible Assets at current cost.
2/ The estimated value of land of the "owner-occupied housing."
3/ Primarily of non-profit organizations.

CHART 18

ASSETS AND LIABILITIES OF THE HOUSEHOLD SECTOR DECEMBER 31, 1984

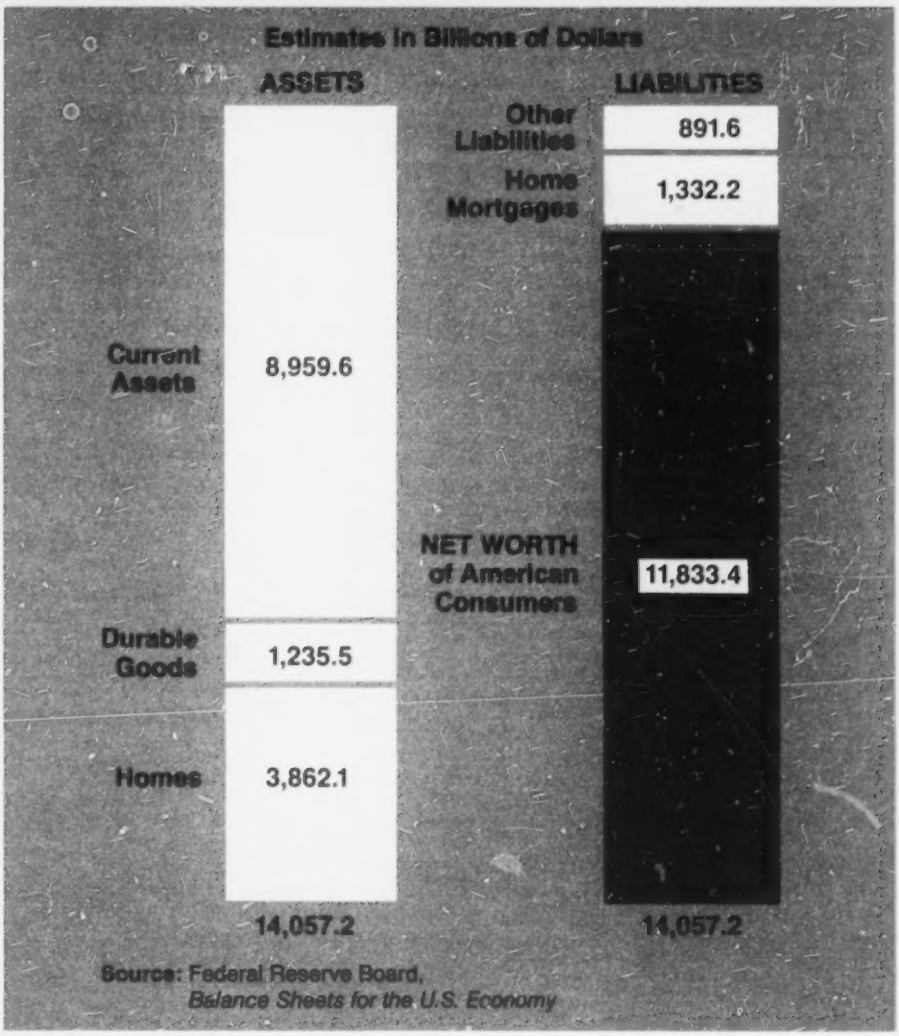


TABLE 18

CONSUMERS' ASSET TO DEBT RATIOS, END OF PERIOD, 1979-1984

	1979	1980	1981	1982	1983	1984
Ratio of:						
Assets to debts excluding home ownership	12.6	13.2	13.0	13.0	12.5	11.7
Home ownership to mortgage debt	2.9	2.9	3.0	2.9	2.9	2.7
All assets to all debts	6.5	6.9	6.8	6.8	6.7	6.3
Percent of owners' equity in all assets	84.7%	85.3%	85.2%	85.3%	85.0%	84.2%

CHAPTER 7

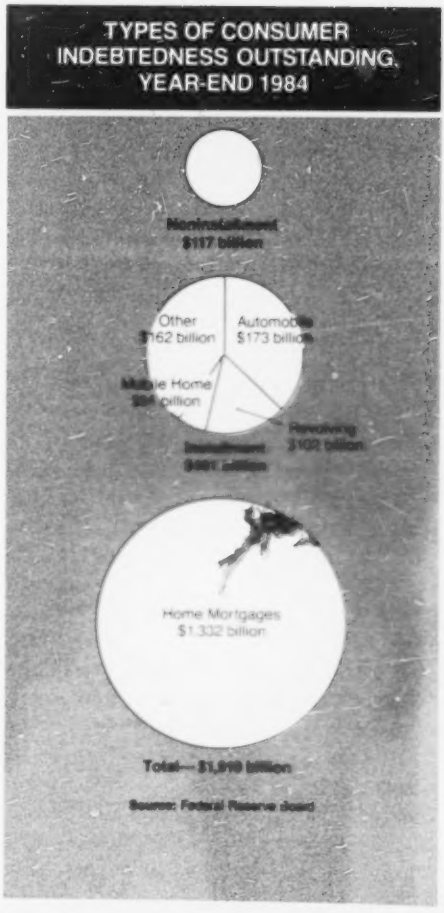
CONSUMERS' BORROWING AND USE OF FINANCIAL SERVICES

It is a rare coincidence that the purchase of expensive items, especially capital goods, can be financed using the accummulated savings of the purchaser, whether it is a government, a business or a household that requires use of the item. Just as business uses commercial credit or issues bonds to finance the purchase of capital goods, so consumers finance the purchase of tangible assets, homes and consumer durable goods through home mortgages and various other forms of consumer credit. These liabilities will be examined in this chapter.

Consumer Credit

As shown in Chart 19, consumers' direct borrowings amounted to almost $2 trillion at the end of 1984. Approximately 70% of households' indebtedness was in the form of home mortgages. About 24% was in the form of installment consumer credit, defined by the Federal Reserve as "most short- and intermediate-term credit extended to individuals through regular business channels, usually to finance the purchase of consumer goods and services or to refinance debts incurred for such purposes, and scheduled to be repaid (or with the option of repaying) in two or more installments. "About 6% of consumer debt was noninstallment consumer credit.

CHART 19



Noninstallment Credit

The major categories of noninstallment consumer credit, which is generally of a convenience nature, are single payment loans negotiated at a commercial bank, retailers' charge accounts with balances paid in 30 days or less, and service credit which represents debts payable to hospitals, physicians, dentists, etc. At the end of 1984 outstanding noninstallment credit was estimated to be about $117 billion, up from $109 billion at the end of 1983.

Consumer Installment Credit

At year-end 1984, consumer installment credit outstanding totaled $460.5 billion, according to the Federal Reserve Board's Mortgage and Consumer Finance section, up 20% from 1983 (Table 19). During the 1970's, the increases varied between $4.8 billion in 1970 and $43 billion in 1978. The 1984 increase, at $76.8 billion, was the largest ever, and almost double the size of the increase during the previous year.

Of the nearly $461 billion in consumer installment credit outstanding at the end of 1984, 46% was held by commercial banks, 21% by finance companies, 14.7% by credit unions, 8.9% by retailers, 6.5% by savings and loan associations, almost 1% by gasoline companies, and 1.8% by mutual savings banks.

By type of credit, $173 billion, or about 37% was for the purchase of automobiles. Generally with such credit, the automobile serves as security for installment contracts which are written by dealers and sold to banks or finance companies, or as security for auto loans made directly to consumers by banks and credit unions. Predominant in financing these purchases were the commercial banks, with almost $86 billion outstanding. Finance companies held $55 billion, most of which consisted of contracts purchased by the subsidiaries of manufacturers, i.e. by General Motors Acceptance Corporation (GMAC), Ford Motor Credit and Chrysler Financial Corporation. Credit unions held $33 billion in loans made for the purchase of automobiles.

Revolving credit outstanding amounted to $102 billion at the end of 1984 (22% of the total). Commercial banks held $60.5 billion of this, retailers $37 billion and gasoline companies $4 billion.

Mobile home financing totaled almost $25 billion at year-end 1984 (5% of the total). Of this, commercial banks held $10 billion, finance companies $9 billion, and other institutions $5.7 billion.

All other types of consumer installment financing amounted to $162 billion and comprised 35% of the total outstanding at the end of 1984. Commercial banks held $57 billion, finance companies $33 billion, and credit unions $35 billion. Retailers (including the wholly owned finance subsidiaries of chain stores) held $4 billion, savings and loan associations a strong $25 billion (up 30% from 1983), and mutual savings banks $8 billion. This "other" category includes installment contract financing of household goods such as appliances and furniture, as well as all personal loans. Table 20 shows in detail these outstandings at year-end 1983, as well as the net change in outstandings during the year. (Federal Reserve data on extensions and liquidations have been discontinued by the Board).

Rates of Charge

Annual interest rates charged by finance companies on purchased retail automobile paper in November 1984 averaged 15.24% for new cars (up from 13.50% in November 1983) and 18.30% for used cars. Although no comparable figures are available for commercial banks their rates on purchased paper were probably about the same as those of finance companies. The most frequent rate charged on direct loans by banks to consumers to finance new automobiles over a 48 month period in the first week of November 1984 was 13.91%. Most of the financing by retailers is in the form of revolving credit at rates probably approximating the rate on bank credit cards which averaged 18.82% in November 1984. The rate for November 1983 had averaged 18.75%.

TABLE 19

CONSUMER INSTALLMENT CREDIT OUTSTANDING AND NET CHANGE DURING YEAR, BY TYPE, BY HOLDER, 1980-1984

(In billions of dollars)

	1980	1981	1982	1983	1984
OUTSTANDING AT YEAR END - TOTAL	301.4	318.2	335.0	383.7	460.5
Automobile	112.3	119.8	126.3	143.1	172.6
Commercial Banks	61.5	58.1	59.6	67.6	85.5
Credit Unions	21.1	22.0	22.6	25.6	32.5
Finance Companies	29.7	39.7	44.1	50.0	54.6
Revolving	58.5	64.5	69.6	82.0	101.6
Commercial Banks	29.8	32.9	36.7	44.2	60.5
Retailers	24.3	27.2	28.9	33.7	36.7
Gasoline Companies	4.5	4.4	4.1	4.1	4.3
Mobile Home	18.8	19.9	22.4	23.9	24.6
Commercial Banks	10.4	10.2	9.6	9.8	9.6
Finance Companies	5.2	6.4	9.2	9.5	9.2
Savings and Loans	2.7	2.8	3.1	3.9	5.0
Credit Unions	0.5	0.5	0.5	0.6	0.7
Other	111.8	114.0	116.7	134.7	161.8
Commercial Banks	45.3	46.5	46.7	50.4	56.7
Finance Companies	28.4	26.2	24.9	27.9	32.9
Credit Unions	22.5	23.5	24.2	27.3	34.7
Retailers	4.4	4.1	3.5	3.8	4.2
Savings and Loans	7.2	9.6	12.7	19.2	25.0
Mutual Savings Banks	4.0	4.1	4.8	6.1	8.3
NET CHANGE DURING YEAR - TOTAL		16.8	16.8	48.7	76.8
Automobile		7.5	6.5	16.8	29.5
Commercial Banks		- 3.4	1.5	8.0	17.9
Credit Unions		0.9	0.6	3.0	6.9
Finance Companies		10.0	4.4	5.9	4.6
Revolving		6.0	5.1	12.4	19.6
Commercial Banks		3.1	3.8	7.5	16.3
Retailers		2.9	1.7	4.8	3.0
Gasoline Companies		- 0.1	- 0.3	0.0	0.2
Mobile Home		1.1	2.5	1.5	0.7
Commercial Banks		- 0.2	- 0.6	0.2	-0.2
Finance Companies		1.2	2.8	0.3	-0.2
Savings and Loans		0.1	0.3	0.8	1.1
Credit Unions		—	—	0.1	0.1
Other		2.2	2.7	18.0	27.1
Commercial Banks		1.2	0.2	3.7	6.3
Finance Companies		-2.2	-1.3	3.0	5.0
Credit Unions		1.0	0.7	3.1	7.4
Retailers		- 0.3	- 0.6	0.3	0.4
Savings and Loans		2.4	3.1	6.5	5.8
Mutual Savings Banks		0.1	0.7	1.3	2.2

Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.

Surveys of Consumer Finances

During this century, consumers have been survyed frequently, if irregularly, by various parties interested in collecting information on their "consumption" of financial services. Such information has been of interest to many groups, among them government bodies seeking to create legislation and regulation for the consumer financial services industry; the industry itself, seeking to market its services to individuals; economists; and others.

The Federal Reserve first sponsored a survey of consumer finances just after World War II. Surveys were conducted by the Survey Research Center of the University of Michigan annually from 1947

TABLE 20

CONSUMER INSTALLMENT CREDIT, BY TYPE AND HOLDER, 1984

(In millions of dollars)

	Outstanding Year-end 1983	Net Change 1984	Outstanding Year-end 1984
Total Installment Credit.....	383,701	76,799	460,500
Commercial Banks	171,978	40,413	212,391
Finance Companies	87,429	9,318	96,747
Credit Unions	53,471	14,387	67,858
Retailers	37,470	3,443	40,913
Savings and Loans	23,108	6,837	29,945
Gasoline Companies	4,131	184	4,315
Mutual Savings Banks	6,114	2,214	8,331
Automobile.....	143,114	29,475	172,589
Commercial Banks	67,557	17,944	85,501
Credit Unions	25,574	6,882	32,456
Finance Companies	49,983	4,649	54,632
Revolving.....	81,977	19,578	101,555
Commercial Banks	44,184	16,365	60,549
Retailers	33,662	3,029	36,691
Gasoline Companies	4,131	184	4,315
Mobile Homes.....	23,862	694	24,556
Commercial Banks	9,842	-232	9,610
Finance Companies	9,547	-304	9,243
Savings and Loans	3,906	1,079	4,985
Credit Unions	567	151	718
Other.....	134,748	27,052	161,800
Commercial Banks	50,395	6,336	56,731
Finance Companies	27,899	4,973	32,872
Credit Unions	27,330	7,354	34,684
Retailers	3,808	414	4,222
Savings and Loans	19,202	5,758	24,960
Mutual Savings Banks	6,114	2,217	8,331

Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.

through 1970, but then were discontinued. In 1977, balance-sheet data were collected as part of a survey of consumer credit sponsored by various federal banking agencies.

The interview questionnaire for this survey probed two significant aspects of consumer credit. First, it explored use by consumers of different types of credit, updating the *Surveys of Consumer Finances* undertaken by the Survey Research Center until 1971. Second, it measured consumers' awareness, understanding, attitudes and behavior regarding credit and its regulation, a largely unresearched area previously. Authored by Thomas A. Durkin and Gregory E. Elliehausen and published by the Federal Reserve Board as the *1977 Consumer Credit Survey*, the report examines lines of direct and indirect questioning used to gather information about the variables, as well as the responses obtained. Chapters 2 and 10 examine the responses to questions on consumer credit protection legislation. Chapters 11 to 21 review consumers' income, assets, debts, and housing; they also update many of the tables from the earlier *Surveys of Consumer Finances*.

In 1983, the Board of Governors of the Federal Reserve System, the United States Department of Health and Human Services, and five other federal agencies joined together to sponsor the 1983 Survey of Consumer Finances. The earliest results of this project became available to the public in late 1984. To date, two articles summarizing certain findings of the survey have appeared in the September and December, 1984 issues of the *Federal Reserve Bulletin*. In the first of these two articles, the authors note that, "(T)he recent survey provides a unique opportunity to link data on consumer assets and liabilities, income, and financial behavior."

The 1983 survey examined the collective "financial position" of American consumers by estimating the debt obligations and asset holdings of a nationally representative sample of American families. By collecting further details on these obligations and holdings, more specific information on consumers' use of financial institutions and products was obtained.

Between February and July of 1983, 3,824 families (defined as "includ(ing) all persons residing together in the same dwelling who are related by blood, marriage, or adoption" . . . and . . . "includ(ing) one-person units as well as units of two or more persons") agreed to grant personal interviews. The interviews included questions covering balance sheet items as of the interview date, and income from the previous year (1982). Respondents were "encouraged to consult other family members and financial records in an effort to obtain complete and accurate responses."

Home equity was found to be the largest asset of many homeowners, who comprised 64% of all families surveyed. Overall mean net equity in nonfarm homes was $56,133, although it varied considerably with household characteristics such as income, age race, and life cycle stage.

Checking accounts were the most common financial asset, owned by 79% of families. The median checking account balance was $500. Savings accounts were the next most common financial asset, being maintained by 65% of families. Liquid assets other than checking and savings accounts were more popular than they had been in earlier years, presumably due to regulatory changes since the previous consumer surveys making available new deposit instruments and an associated increased willingness among savers to diversity. Certificates of deposit and savings bonds were held by more than one fifth of the surveyed families. Money market accounts and the less liquid retirement accounts were held by 14% and 17% respectively.

Nondeposit financial assets (stocks and bonds) were not as widely held, although 19% of the sample group owned stocks in amounts averaging just over $4,000. Furthermore, it was discovered through questions regarding the content of stock portfolios and the frequency of transactions that most of these stockholders were neither diversified in their holdings nor were they active traders. For owners of all non-liquid financial assets, and especially

those with bonds and non-taxable holdings such as municipal issues, the median amount of total financial assets was well above the median for all families, which was $2,300. These and other survey results indicate that ownership of financial assets is highly concentrated among a small group of families.

The survey data provide detailed information on some financial characteristics of families with certain types of liabilities (Table 21). Looking first at the frequency of various liabilities, only 37% of families had mortgage debt outstanding (although 64% of families were homeowners). A larger portion of families, 62%, had some type of consumer credit outstanding, including credit from finance companies, retail stores, banks, savings & loans, credit unions, and other sources. 42% of families had bank credit cards, while 10% had travel and entertainment (T&E) cards.

The mean amount of consumer credit outstanding among all families was $5,400 (Table 22), but the median amount was only $2,382, indicating a high occur-

TABLE 21

SELECTED CHARACTERISTICS OF FAMILIES USING FINANCIAL SERVICES: 1983

	Percent of all families	Credit Card Holders		Have mortgage debt	Have consumer debt*	Amount of Consumer Debt **	
		Bank	T & E			Mean	Median
						(dollars)	
Average balance in main checking account:							
Less than $2,500.....	71	50	11	44	69	5,466	2,751
$2,500 or more.....	8	56	21	29	39	14,305	4,011
Other financial services used and financial characteristics:							
Money market deposit account.....	8	65	17	41	48	7,266	3,175
Money market mutual fund account...	6	80	30	49	70	12,370	4,000
Brokerage account.....	7	82	30	54	64	10,635	4,000
Nonliquid financial assets.....	23	68	20	49	64	8,047	3,648
Saving and investment advice.....	26	52	15	40	62	7,525	2,614
Type of credit card held:							
Gasoline.....	28	77	22	51	74	7,667	4,002
Bank.....	42	100	18	53	77	6,873	3,321
T & E.....	10	80	100	62	80	11,147	5,345
National retailer.....	48	65	14	52	76	5,778	3,100
Other retailer.....	37	69	18	50	75	6,164	3,000
Other.....	5	80	40	54	81	9,436	3,391
Source of outstanding credit:							
Commercial bank.....	19	54	14	51	100	7,869	4,430
S&L or savings bank.....	3	56	16	60	100	6,409	4,365
Credit Union.....	7	60	13	63	100	6,274	4,705
Finance company.....	12	44	9	46	100	6,927	4,183
Store.....	7	37	9	40	100	5,533	1,940
All Families.....	100	42	10	37	62	5,400	2,382

* Includes credit card, other installment, and non-installment credit.
** Covers only families that have such debt.

Source: Board of Governors of the Federal Reserve System.

rence of small amounts outstanding (half of the reported outstanding amounts were less than $2,382).

Other financial characteristics of various liability-holders are tabulated in the body of Table 21. Consumers whose main checking account was at a commercial bank tended to have slightly larger amounts of consumer installment credit outstanding than those with checking accounts elsewhere. Those with main checking accounts at credit unions were the most likely to have consumer debt outstanding, regardless of amount. This situation presumably arises primarily because of the nature and purpose of the credit union as a financial institution.

Families with checking account balances below $2,500 were much more likely to owe both mortgage debt and nonmortgage consumer debt than were families with larger checking account balances. In addition, families maintaining small account balances averaged only $5,466 in consumer debt outstanding, compared with $14,305 for those with larger checking account balances.

Owners of money market deposit accounts, money market mutual fund shares, and brokerage accounts all had higher average consumer credit balances outstanding than the mean consumer debt among all families. Among these 3 groups, however, money market deposit holders had much smaller consumer credit balances outstanding (averaging $7,266) than did money market mutual fund and brokerage account owners, whose consumer credit balances averaged $12,370 and $10,635 respectively.

Among credit card users, holders of cards other than bank cards (i.e., gasoline, T&E, proprietary retail, and other credit cards) were likely also to hold bank cards. Among each of the groups of cardholders, between 65% and 80% also held bank cards. Such was not the case for T&E cards, which were held by between only 14% and 40% of families having other credit cards.

TABLE 22

DISTRIBUTION OF CONSUMER DEBT OUTSTANDING, SELECTED YEARS

(Percent of families with such debt)

	Current dollars			Constant dollars		
	1970	1977	1983	1970	1977	1983
Amount of consumer credit outstanding (dollars)						
None	46	37	18	46	37	38
1-499	20	15	13	11	12	13
500-999	9	10	6	5	6	6
1,000-1,999	12	11	9	9	10	9
2,000-2,999	6	8	6	5	6	6
3,000-4,999	5	11	9	9	10	9
5,000-7,400	2	5	7	6	9	7
7,500 and more	1	4	12	8	11	12
Total	100	100	100	100	100	100
Mean (dollars) *	1,438	2,713	5,400	3,686	4,450	5,400
Median (dollars) *	858	1,599	2,382	2,199	2,622	2,382

* Averages only among families that have such debt.

Source: Federal Reserve Board

TABLE 23

RATIO OF MONTHLY INSTALLMENT DEBT* PAYMENTS IN 1983
TO FAMILY INCOME IN 1982,
BY SELECTED FAMILY CHARACTERISTICS

(Percentage Distribution)

	(Percent of family income)				
	No Debt	Less than 10%	10% to 19%	20% or more	Total
All Families	59	25	11	5	100
Age of Family Head (years)					
Under 25	55	21	16	9	100
25-34	45	34	15	7	100
35-44	45	36	14	6	100
45-54	51	31	12	5	100
55-64	68	18	9	4	100
65-74	86	7	4	3	100
75 and over	94	2	2	2	100
Family Income (dollars)					
Less than 5,000	84	3	3	10	100
5,000-7,499	79	7	4	10	100
7,500-9,999	65	14	12	9	100
10,000-14,999	66	14	13	7	100
15,000-19,999	56	21	17	6	100
20,000-24,999	51	27	18	5	100
25,000-29,999	50	31	16	3	100
30,000-39,999	44	45	10	1	100
40,000-49,999	42	47	9	2	100
50,000 and more	53	39	8	1	100

Source: Federal Reserve 1983 Survey of Consumer Finances.
Note: Parts may not add to totals due to rounding.
* Does not include noninstallment credit.

By types of lending institutions, average amounts of credit reported owed by consumers appear quite homogeneous, not only as measured by mean but also by median amounts (the latter with the exception of consumer debt at retail establishments). It should also be noted that the disparity between the mean and median amounts of consumer debt reported by interviewees for all families is largely due to the even larger disparity between mean and median amounts at "stores", which includes dealers. For financial institutions alone, the mean and median are actually quite close.

Incidence of Consumer Credit Usage

The 1983 survey found that 59% of all families owed no consumer installment debt. Exactly one-quarter of all families had installment debt payments (excluding home mortgages) of less than 10% of family income; 11% had payments of 10-19%, and 5% had payments of 20% or more (Table 23).

The Federal Reserve Board study shows the level of commitment for installment debt repayment by age groups of the family head. For example, 25% of the families where the family head was under 25 had 10% or more of their disposable income committed to repayment of installment credit. This percentage dropped to 22% for the 25 to 34 year age group, 20% for the 35 to 44, 17% for the 45 to 54 year, and 13% for the 55 to 64 year age groups. By contrast, 7% of those in the 65 to 74 year age group, and 4% of those 75 years of age and over had 10% or more of their previous

years' disposable income committed to repayment of installment credit in 1983.

Repayments as a percent of disposable income vary also by income level of spending unit. For the low income levels (under $5,000 per year), 84% of households had no installment payments in mid-1983 and another 3% had payments of under 10% of disposable income. At the same time, of these lower income families, most of those who did owe installment debt did so at levels greater than 20% of income. Among families with income of $50,000 and over, 53% had no installment payments and 39% had payments of less than 10% of disposable income. Families with incomes between $40,000 and $50,000 were the most likely to be credit users, over 58% of these families owing some installment credit in 1983. In contrast to the relatively high levels of debt burden among low-income installment borrowers, the majority of high-income income.

Personal Bankruptcies

Personal bankruptcies are always a concern to credit grantors, members of the legal profession, legislators and social workers alike. The unprecedented rise in nonbusiness bankruptcies following the implementation of the new federal bankruptcy code on October 1, 1979 has given rise to even greater concern about the effect of bankruptcy on the consumer credit markets in the future.

The Administrative office of the U.S. Courts reports total filings of personal bankruptcy petitions in 1984 at 284,534 (excluding joint petitions). This figure represents a 0.7% decline from the 1983 figure of 286,579.

There are several factors influencing the number of personal bankruptcies, one of which is the number of individuals in financial distress. Others include the ability since 1979 of the debtor to retain more assets than permitted under the previous law, and other options which make the decision to declare personal bankruptcy less unattractive than it had been prior to enactment of the new law. Bankruptcy law has been subject in the past to differing interpretations in different districts, which situation has intensified with the introduction of the 1979 code. Thus, while the number of bankruptcies has at times in the past been used as a guide to the overuse of credit, recently it has become less reliable as such. New legislation in 1984 again somewhat tightened the conditions for disclosing personal bankruptcy but it is too early to see the impact.

CHAPTER 8

THE CONSUMER FINANCE INDUSTRY

Definition

The consumer finance industry is defined to include those corporations, partnerships or proprietorships whose primary purpose is to provide credit to consumers. Such financing is done through direct cash loans or through the purchase of installment sales paper from dealers or retailers when consumers buy automobiles or other goods for which they pay over time.

The institutions specializing in this business are generally known as consumer finance companies, sales finance companies, industrial banks and industrial loan companies. At the end of 1984, such companies held $96.7 billion in installment credit outstanding, approximately $20.8 billion in personal loans, $54.6 billion in automobile credit, $9.2 billion in mobile home credit, and $12.1 billion in credit to finance the purchase of other consumer goods and home improvments.

Many institutions are involved in credit financing for consumer purchases of goods and services. Commercial banks often provide consumer credit through two departments, one of which specializes in personal installment loans and another which is responsible for credit card operations. Most savings and loan associations and mutual savings banks offer some form of personal loan as an adjunct to their major role of financing homes, and credit unions have as one of their major functions the granting of loans to members. Each of these institutions also has a collateral role—that of accepting time and/or savings deposits as a major method of obtaining the funds to be loaned out. Retail outlets also make credit available to their customers as a convenience but do not take in deposits to fund this activity directly. Consumer finance companies are the only institution whose primary role is to make installment credit available to consumers. Accordingly, retailers as a group, and most depository financial intermediaries (including commercial banks, savings and loan associations, and credit unions), which have the dual functions of receiving funds from savers and lending to borrowers, are not included in the following discussion of the consumer finance industry. Finance company subsidiaries of bank, insurance, and other holding companies are included.

Industrial banking companies or Morris Plan companies (known variously as thrifts, industrial loan companies and other titles) which operate in 20 states are permitted to, and some do, accept consumers' savings deposits in various forms (thrift certificates and investment certificates are two examples). Those industrials

which accept deposits or deposit-like instruments are, in a real sense, depository financial institutions although they are usually grouped with finance companies because their charters are most frequently held by subsidiaries of finance companies and they are in many cases regulated by a state's consumer credit administrator.

Size and Ownership

Finance companies vary in size and ownership from single office independently owned and operated companies to large chain companies with hundreds of offices across the country. Some medium-size and large companies are independently owned, others are subsidiaires of manufacturers, bank holding companies, insurance companies, or conglomerate firms. Alternatively, some companies in the industry have insurance and retail subsidiaries, some offer commercial financing, in addition to consumer financing, some have manufacturing subsidiaries and some have subsidiaries which operate in Canada and overseas.

Long-Term Trends

Until well into the 1960's, finance companies were generally highly specialized and could be distinguished as consumer finance companies, sales finance companies or commercial finance companies. However, by the late 1970's, most large and medium-size, and many small finance companies had become more diversified, both as to lending (assets) and as to sources of funds (liabilities). During the 1970's, diversified giants from outside the industry recognized finance companies as well-managed profit centers and many finance companies were acquired by such conglomerates. Also, the passage of the Bank Holding Company Act amendments of 1970 provided the legal basis for bank holding companies to increase their acquisitions of finance companies.

Table 24 shows consumer and business financing by finance companies since 1980. At the end of 1984, consumer receivables constituted 42% of the $231.9 billion in receivables, while business credit in the amount of $135.2 billion constituted 58%.

TABLE 24

RECEIVABLES OUTSTANDING AT FINANCE COMPANIES, BY TYPE, SELECTED YEARS, 1980-1984

(In billions of dollars)

	1980	1981	1982	1983	1984
Receivables Outstanding					
Total	153.5	172.7	179.5	200.8	231.9
Consumer Credit - Total	63.2	72.4	78.1	87.4	96.7
Automobile	29.7	39.7	44.1	50.0	54.6
Mobile Home	5.2	6.4	9.2	9.5	9.2
Personal Loans	na	na	18.3	18.8	20.8**
Other	28.3*	26.3*	6.5	9.1	12.1**
Business Credit - Total	90.3	100.3	101.4	113.4	135.2
Automobile	27.1	27.2	26.5	33.0	42.2
Other than Automobile	63.2	73.1	74.9	80.4	93.0

Source: Federal Reserve Board
Note: Parts may not add to totals due to rounding.

na: not available
* includes personal loans where breakdown is not available.

This distribution is quite different from the 52% and 48% reported in 1983 and earlier years, in large part because of a statistical redefinition by the Federal Reserve Board which now excludes real estate-secured personal loans from consumer credit. When the estimated amount of second mortgage personal loans outstanding at finance companies at the end of 1984 ($26.3 billion) is included as consumer credit, the distribution between consumer and commercial credit outstanding becomes 48% and 52%.

During the first half of the 1970's, the percentage of total consumer installment credit held by finance companies declined from 26.1% at the end of 1970 to less than 20% in the late 1970's (1977,1978). The market share of finance companies in consumer credit has been affected quite a bit by the above-mentioned revision. According to the new data, in 1980 it stood at 21%, rose until 1982 to 23.3% and has fallen in both 1983 and 1984, when it was again an even 21%. The reversal in the 1970's reflected the entry of finance companies into new markets (especially large loans secured by real property and, to a lesser extent, open-end credit) and greatly increased penetration in automobile credit during the difficult economic period of 1980-82 that led to bank and credit union retreats from the market. The 1983 and 1984 declines in the consumer market share of finance companies is at least partly explained by renewed interest on the part of these other institutions in auto credit markets during periods of economic expansion.

Types of Consumer Finance Business

At the end of 1984, the $96.7 billion in consumer installment credit held by finance companies consisted of approximately $20.8 billion in unsecured personal loans (22%), $54.6 billion in retail automobile paper (56%), $9.2 billion in

TABLE 25

CONSUMER INSTALLMENT CREDIT AT FINANCE COMPANIES

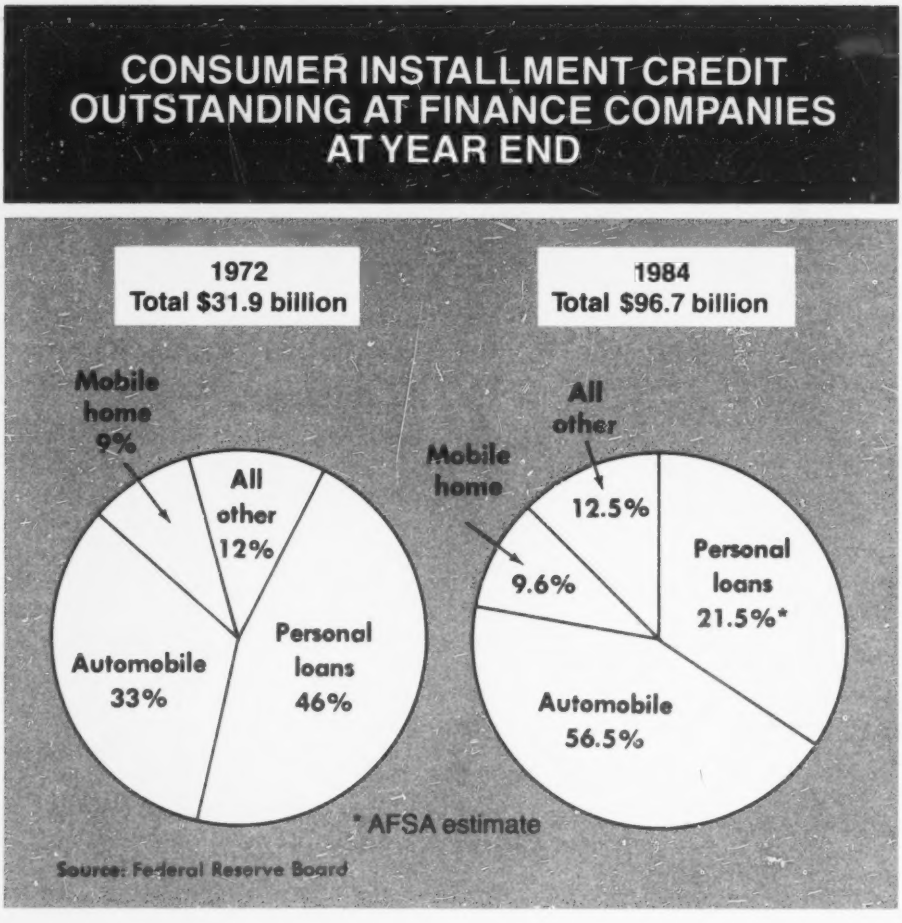
(In millions of dollars)

	Total	Personal Loans	Automobile	Mobile Home	All Other
Outstanding (end of period)					
1980	63,226	n.a.	29,664	5,209	28,353*
1981	72,356	n.a.	39,730	6,442	26,184*
1982	78,143	18,299	44,107	9,159	6,578
1983	87,429	18,814	49,983	9,547	9,085
1984	96,747	20,800**	54,632	9,243	12,072**
Net Change					
1980					
1981	9,130	n.a.	10,066	1,233	-2,169*
1982	5,787	n.a.	4,377	2,717	-1,307*
1983	9,286	515	5,876	388	2,507
1984	9,318	1,986**	4,649	-304	2,987**

Source: Federal Reserve Board and American Financial Services Association.
Note: Parts may not add to totals due to rounding.

* Includes personal loans where breakdown is not available.
** AFSA estimate.

CHART 20



mobile homes (almost 10%), and $12.1 billion in other forms of consumer installment credit (12%) (Table 25 and Chart 20). The vast majority of finance companies now offer a diversity of these consumer credit services.

Although most finance companies and industrial banking companies now in operation had their early beginnings in the direct cash loan field, many others started in the retail sales financing business. Most have subsequently added the other services as a means of providing more complete service for existing customers or as a means of attracting new customers.

Financing of automobiles and other consumer durable goods, the specialty of the sales finance company, is frequently a marginal profit activity, nearly always requiring a large volume for success. Particularly in the financing of relatively small purchases, the total income from finance charges barely covers the cost of putting an account on the books, and is often inadequate to cover the cost of servicing over a period of months or years.

Revolving or open-end consumer credit business has been growing but is still not a major element for most finance companies, partially because of restrictive legislation. However, with the increasing use of electronic fund transfers, many companies are showing an interest in expanding this type of service.

Financing Automobiles and Other Goods

As automobile and other manufacturers expanded the operations of their finance company subsidiaries, and as retail chains established their own finance subsidiaries, the market for independent sales finance companies decreased. In addition, during the early 1970's, commercial banks and credit unions became increasingly aggressive in auto financing. After 1979, however, alternative, higher earning markets for commercial bank lending, and shortages of funds faced by credit unions once again lessened the participation of these institutions in auto financing. The resulting shift back to finance companies is evident in Federal Reserve statistics, which show that finance companies' share of total automobile credit outstanding rose from 26% in 1980 to 33% and 35% in 1981 and 1982 respectively. With continued economic recovery, however, commercial banks have again become more prominent as holders of auto credit (as much a result of improved auto sales as of an effort to increase such lending). Accordingly, as banks' share of outstanding auto credit increased from 47.2% in 1982 and 1983 to 49.5% in 1984, finance companies' share has slipped, from 34.9% in 1982 and 1983 to 31.6% in 1984. In absolute terms, $54.6 billion in automobile installment credit was outstanding at finance companies at the end of 1984, up 9.2% from $50 billion at the end of 1983. Most of this amount was held by the subsidiaries of auto manufacturers, as most independent finance companies do a very limited amount of automobile financing and are in the direct cash loan field, or in many cases in commercial financing.

Financing the purchase of mobile homes is also a part of the operation of some finance companies, though a less substantial portion of their business than it was a few years ago. In the mid-1970's, for example, around 9% of finance company outstandings were mobile home loans, compared with only 2% in 1984. At the end of 1984 there were $9.2 billion in this type of receivable outstanding, down from $9.5 billion at the end of 1983.

The medium of a limited retail sales financing service has in the past provided the consumer finance company with an opportunity to attract new direct loan customers. Traditionally the customer (buyer) entered into a contract with a dealer (seller) to buy a refrigerator, for example. The dealer, in turn, discounted the paper with a finance company by assigning it (endorsing the contract) to the finance company. The buyer would make his monthly payments directly to the finance company under the same terms and conditions as those of his contract with the seller. In such a transaction, the finance company gained a customer to whom it could then also offer its direct loan services as the customer proved his or her credit- worthiness by the manner in which payments on the refrigerator were made. The customer established a credit relationship with the finance company which he could then draw on at a time when he or she needed cash credit. With the expanded use of revolving credit in the 1970's, finance companies retained part of this sales finance service through the use of credit cards or private label financing. Although there is no available measure of the amount of such revolving credit outstanding, it is included in the $12.1 billion of "other" consumer installment credit outstanding at finance companies at the end of 1984.

Personal Cash Loans

A large segment of finance company outstandings is in the form of personal loans, made for various purposes, some secured by real estate, personal property, or other collateral, others unsecured, including a small amount in open-end loans. Finance company outstandings of personal loans, not including those secured by real estate, at the end of 1984 as reported by the Federal Reserve stood at approximately $20.8 billion. During the last half of the 1970's and into the 1980's, personal loans secured by second mortgages of many sizes and maturities, and made for purposes as diverse as purchase of a home to paying college tuition and for va-

cations, have become increasingly popular among lenders, and especially among consumer finance companies.

Larger amounts loaned on second mortgages make the fixed transactions costs of making the loan small as a percent of the amount loaned, and the security (usually in the form of home equity) makes this kind of personal loan an attractive product for consumer finance companies. While detailed and comprehensive data on the amount of second mortgage loans outstanding are not available, it is generally believed that finance companies are the largest holders of such credit. Concurrent with its recalculation of consumer installment credit to exclude second mortgages, the Federal reserve Board has released an estimate of second mortgage outstandings at finance companies. The year-end 1984 estimate was $26.3 billion.

AFSA's Research Report and Second Mortgage Lending Report Supplement 1977-1983 reveals a pattern of strong growth in seconds at a consistent sample of such companies over the seven year period, with a small (1.3%) and possibly temporary decrease in 1983 (Table 26). The year-to-year increases in second mortgages at this group of finance companies have been as high as 83% (in 1979). The slower rate of 7.2% in 1983 and the decline in 1983 may be an indication of caution after such rapid growth in the previous years, rather than an actual withdrawal from second mortgage lending. Collection of the data for 1984 will provide more information on this subject.

Size and Number of Loans and Contracts

Two factors generally control the size of loans made by finance companies. The legislated "loan ceiling" sets an upper limit on the size of loans made in a particular jurisdiction (the state is usually the jurisdiction in consumer credit matters). The maximum loan size under small loan laws has been increased in recent years in a number of states. Several states also have general usury laws or specific second mortgage laws that affect the size of loans finance companies are willing or allowed to make. Table 27 shows the consumer finance laws in effect in various states. (See AFSA "Summary of Consumer Credit Laws and Rates" for further details.)

The second factor influencing the size of loans made stems from the interplay between the maximum authorized rates and the demand for loans of various sizes. Finance companies generally try to offer full loan service. That is, they try to serve customers who need both small and large loans. However, the yield on small loans is often considerably below the cost of making the loan, making it economically im-

TABLE 26

GROWTH IN SECOND MORTGAGE AND OTHER PERSONAL LOANS AT A SAMPLE GROUP OF FINANCE COMPANIES, 1977-1983

	1977	1978	1979	1980	1981	1982	1983
	(In millions of dollars)						
Personal Loans	14,553	17,092	21,530	22,972	24,205	23,964	24,311
Second Mortgage	2,124	3,783	6,938	9,668	13,086	14,029	13,851
Other Personal Loans	12,429	13,309	14,592	13,304	11,119	9,835	10,460
Total Consumer Receivables	37,777	45,666	58,061	62,865	74,940	78,066	85,730

Source: American Financial Services Association Surveys.

possible for any institution to have a very large proportion of loans outstanding in the form of very small loans. Rising consumer prices, however, have reduced the consumer demand for very small loans, alleviating somewhat this problem.

According to AFSA surveys of member finance companies, the average size second mortgage personal loan made (at 64 responding companies) in 1983 was $14,818 (excluding unearned charges). This compares with an average non-sec-

TABLE 27

LOAN LAWS UNDER WHICH FINANCE COMPANIES OPERATE, BY STATE

	Consumer Finance	Other Loan	Revolving Loan	Second Mortgage
Alabama	X		X	
Alaska		X		
Arizona	X	X	X	
Arkansas	(Usury statue only)			
California				
Colorado	(Uniform Consumer Credit Code)			
Connecticut		X	X	X
Delaware				
District of Columbia				
Florida	X	X		
Georgia	X	X		
Hawaii	X			
Idaho	(Uniform Consumer Credit Code)			
Illinois	X	X	X	
Indiana	(Uniform Consumer Credit Code)			
Iowa	X	X	X	
Kansas	(Uniform Consumer Credit Code)			
Kentucky	X	X		
Louisiana				
Maine	(Most licensees have ceased business)			
Maryland	X			X
Massachusetts	X	X	X	X
Michigan	X			X
Minnesota	X	X		
Mississippi	X	X	X	
Missouri	X			
Montana				
Nebraska				
Nevada	X	X		
New Hampshire	X			X
New Jersey				X
New Mexico	X	X	X	
New York				By rule
North Carolina	X	X	X	X
North Dakota				
Ohio				
Oklahoma	(Uniform Consumer Credit Code)			
Oregon				
Pennsylvania				X
Rhode Island	X	X		X
South Carolina	(Uniform Consumer Credit Code)			
South Dakota				
Tennessee				
Texas				X
Utah	(Uniform Consumer Credit Code)			
Vermont	X	X		X
Virginia	X	X	X	X
Washington	X	X		
Wisconsin		X	X	X
Wyoming	(Uniform Consumer Credit Code)			

Source: American Financial Services Association.

TABLE 28

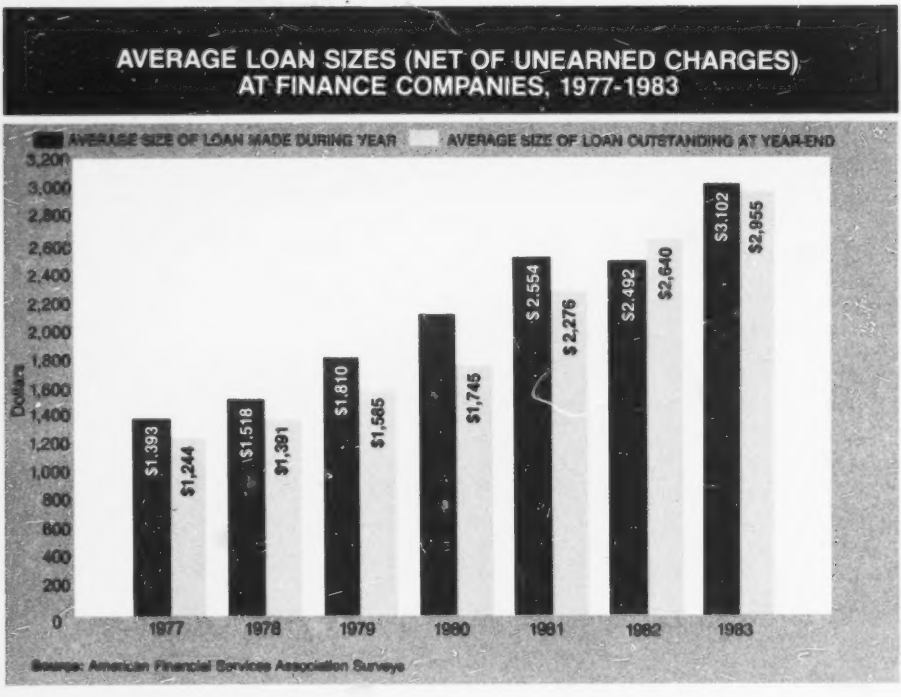
AVERAGE LOAN SIZES AT FINANCE COMPANIES, 1981-1983

(Net of Unearned Charges)

	Loans Made	Loans Outstanding
Second Mortgage Personal Loans		
1981 (53 companies)	$13,354	$11,508
1982 (62 companies)	$13,464	$12,245
1983 (64 companies)	$14,818	$12,480
Other Personal Loans		
1981 (53 companies)	$1,561	$1,247
1982 (62 companies)	$1,731	$1,664
1983 (64 companies)	$1,924	$1,572

Source: American Financial Services Association Surveys.

CHART 21

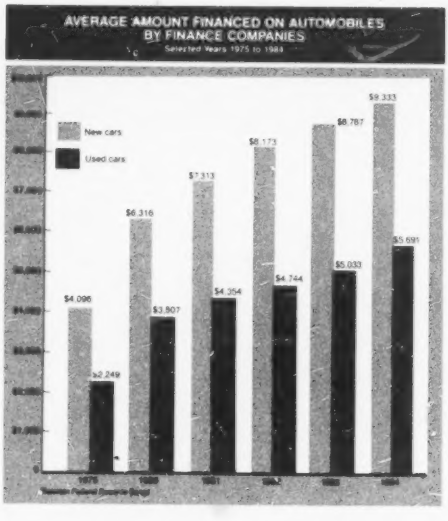


ond-mortgage personal loan size of $1,924 (Table 28).

The same 64 companies also provided sufficient detail to show average size second mortgage loans outstanding of $12,480 and average size non-seconds outstanding of $1,572.

Automobile finance contracts are on average much larger than (non-second-mortgage) personal loans. Federal Reserve data reveal that the average amount financed on new automobiles (again excluding precomputed charges) increased from $8,787 in 1983 to $9,333 in 1984 (Chart 22). For used cars, the amount advanced by finance companies increased from $5,033 in 1983 to $5,691 in 1984.

CHART 22



Rates of Charge

Laws governing the maximum rates that consumer installment credit companies may charge are determined by each state. Rates of charge permitted may differ for new and used automobile financing, other goods financing, for cash loans, and for open-ended credit. The rates quoted in this section are annual percentage rates (APR), calculated in the manner prescribed by the Truth in Lending Law.

Rates of charge for cash loans generally vary from 36% and over annually on the smallest to 18% or less on larger, well-secured loans. Federal Reserve data reveal that finance companies charged an overall average rate of 23.1% on loans made in 1982 (the last date for which rates were collected).

Large ticket items such as automobiles, which have a resale value, can usually be financed at lower rates. According to Federal Reserve surveys, the average annual rate charged by finance companies in 1982 for financing of new autos was 15.8% and for used autos 20.8%. Finance company rates for mobile homes averaged 18.8% in 1982. Financing of consumer goods other than autos and mobile homes, specifically items of less cost and not usually resaleable, cost an average of 22.6% per year at finance companies in 1982.

Types of Rate Quotation

Various types of rate quotation were permitted (or required) by states prior to passage of the Truth in Lending Act. Two types of rate quotation on small loans provide an example. Both types lumped all finance charges into a single rate, although additional charges were permitted (and regulated) in most states to cover the cost of insurance when the borrower desired such coverage. Both forms of quotation also permitted the borrower to repay a loan without penalty at any time before the contract matured.

The older form of rate quotation was the percent per month of the unpaid balance. Illinois' small loan law, for example, was of this type and permited charges as follows: 2 ½% per month on the first $300 outstanding, 2% per month on the amount between $300 and $600 outstanding, and 1 ½% per month on the amount between $600 and $3,000 outstanding. Applying these rates, a $1,000 loan repaid in 12 equal monthly installments of $95.36 would cost the borrower $144.32 in interest, an effective 25.67% APR.

Many states also adopted a form of rate quotation for small loans similar to that frequently used by retail stores in quoting

consumer installment credit. This form of quotation is referred to as add-on, meaning that a certain number of dollars is added to the amount of the contract to be repaid. Ohio's small loan law is an example of this type allowing $16 add-on per $100 per year up to $750, $11 per $100 per year on the amount between $750 and $1,500, and $9 per $100 per year on the amount between $1,500 and $3,000. In this case, a loan of $1,000 repaid in 12 monthly installments of $95.62 each would cost the borrower $147.44 in interest or an effective 26.18% APR. For larger loans, the annual percentage rate is lower. For example, the finance charge for a loan of $4,000 in Colorado under the Uniform Consumer Credit Code is $433.04 amounting to an annual percentage rate of 19.42%. The total of $4,433.04 is repayable in 12 monthly installments of $369.42 each.

Terms of Finance Contracts

The maximum length of loan or sales finance contracts is also limited by the applicable legislation or regulation in each state. Company policy, however, may restrict maturities to a shorter term than that permitted by law.

Federal Reserve data reveal that in November 1984 new auto contracts written by major finance companies had an average length of 50 months, longer than the average of 46.3 months in November 1983. Used car contracts in November 1984 had average maturities of 39.9 months, also up from 37.9 months in November 1983. Loan-to-value ratios at auto finance companies for new cars in November, 1984 averaged 89% and for used cars 93%, compared with 86% and 93% a year earlier.

Consumer Borrowers

Most of the information for this and the following sections on the assets, liabilities and income of finance companies was obtained from American Financial Services Association surveys for which the latest data collected are for the year 1983.

Traditionally, the "character" of the borrower was the significant factor considered by finance companies granting loans, although increasing emphasis has been placed on real security in recent years. Except in the case of large loans, security in the form of tangible personal property frequently has little market value. To the borrower, however, it may have considerable subjective value and his willingness to use it as security establishes evidence of his good faith. Reports of various state supervisory authorities show that consumer finance companies seldom take possession of security on small loans.

Although less detailed information on the purposes of second mortgage loans made at the finance companies responding to the AFSA survey in 1983 is available than on the purposes of other personal loans, Table 29 reveals that the vast majority (98%) of real-estate secured loans were taken for uses not involving the purchase or transfer of real estate. More specifically, seconds are now being used primarily to finance such activities as vacations, college tuition, home improvements, etcetera. A large portion (around 20%) of the smaller other personal loans are still used to consolidate and/or refinance existing debts.

The characteristics occurring most often among the second mortgage customers of the surveyed companies include: age between 35 and 44 years, annual income over $24,000, occupations are operatives, laborers, managers, proprietors etc. Second mortgage loans are made most frequently in amounts between $5,000 and $10,000 (net of unearned charges). For other personal loan borrowers: age is younger, most frequently between 25 and 34 years, and annual income is lower, between $15,000 and $24,000. Occupations are again most frequently operatives, laborers, clerks, etc. and loans are most frequently made in net amounts between $2,000 and $5,000 (Tables 29 and 30). Table 31 provides the income and age distributions of the 85,407 U.S. households in 1983 for purposes of comparison. Although the income brackets are slightly different, general comparison is

TABLE 29

PERCENTAGE DISTRIBUTION OF PERSONAL LOANS MADE AT FINANCE COMPANIES IN 1983, BY PURPOSE

	Percent of Reported Loans Made in 1983	
Second Mortgage Personal Loans	**Number**	**Amount**
Purchase or Transfer of Primary Residence	0.9%	1.0%
Other Real Estate Purchase	1.0%	1.5%
Other	98.1%	97.5%
TOTAL	100.0%	100.0%
Number of Companies: 8		
Number of Cash Loan Offices: 2,679		
Average Size Loan Made: $16,002		
Other Personal Loans		
Consolidation of existing bills	19.7%	24.0%
Travel, vacation and education expenses	12.4%	10.4%
Automobile purchase or repair	13.5%	14.1%
Home furnishing and appliances	5.5%	4.5%
Household repairs	4.8%	5.5%
All other purposes	44.1%	41.5%
TOTAL	100.0%	100.0%
Number of Companies: 11		
Number of Cash Loan Offices: 4,711		
Average Size Loan Made: $1,976		

Source: American Financial Services Association Surveys.

possible. The most common household income in the overall population was between $30,000 and 40,000, and the most common age of householder was between 25 and 34.

Structure of the Finance Company Industry

The finance company industry has undergone many changes in the past few years and necessarily AFSA's annual survey has changed along with the industry. Earlier reports had been designed to reflect characteristics of two distinct types of finance companies dealing with consumers: 1) consumer finance companies —those companies primarily engaged in making cash loans directly to consumers; and 2) sales finance companies—those companies primarily purchasing retail installment sales contracts from retailers and dealers. This division seemed appropriate for many years since each type of company had discrete attributes. Consumer finance companies generally made smaller loans, relied more heavily on long-term borrowing as a source of funds, and operated from relatively more offices (with more operating overhead) per unit of receivables. Sales finance companies generally made larger loans (more frequently secured), and relied relatively more on short-term commercial paper as a funds source.

Generalizations of this type, however, are no longer appropriate. In recent years many finance companies have diversifed both their assets and their liabilities, especially the large companies. Consumer fi-

TABLE 30

PERCENTAGE DISTRIBUTION OF LOANS MADE AT FINANCE COMPANIES IN 1983, BY CHARACTERISTICS OF BORROWERS

	Percent of Number of Loans Made to:	
	Second Mortgage Personal Loan Borrowers	Other Personal Loan Borrowers
By Annual Income		
$6,000 or less	1.5%	1.1%
$6,001 to $9,000	2.4%	3.7%
$9,001 to $15,000	17.7%	29.8%
$15,001 to $24,000	29.4%	30.5%
Over $24,000	45.6%	29.2%
Not reported	3.5%	5.7%
Total	100.0%	100.0%
By Age		
Less than 25 years	1.9%	10.0%
25 to 34 years	20.4%	36.6%
35 to 44 years	34.3%	25.8%
45 to 54 years	25.9%	16.0%
55 to 64 years	15.0%	9.7%
65 years and over	2.2%	1.8%
Not reported	0.2%	0.2%
Total	100.0%	100.0%

Source: American Financial Services Association.

nance companies now often purchase installment sales contracts through their cash loan offices. Sales finance companies have entered the cash loan business. Both types of companies are also active in many forms of commercial financing, a particularly rapidly growing portion of the business of some companies. Athough smaller companies are likely to be more specialized than large companies (usually in cash lending), many smaller companies have diversified in the last decade as well. Because of these changes, the main distinction among companies is now division by size of company rather than by type. Distributions of assets, liabilities, income, and other totals are presented separately for companies with receivables of $1 billion or more and for companies with receivables of less than $1 billion. Then, within these major size classifications, the same distributions are presented for companies with at least 50 percent of receivables in personal (cash) loans and for companies with less than 50 percent of receivables in personal loans.

Assets of Finance Companies

The American Financial Services Association, in its annual surveys of finance companies, collects information on their assets and liabilities. For 1983, data were obtained from 110 companies, both large and small, which operated 11,177 offices throughout the United States (Table 32). These companies had total assets of $140.2 billion at the end of 1983 including $134.8 billion in accounts and notes receivable of which $28 billion was outstanding in personal loans.

Of the 110 companies responding to the survey in 1983, 92 were "small" companies, according to the above-mentioned classification scheme. These companies had assets of $5.7 billion including personal loans of $3.9 billion. Of the 110, 18 were "large" companies and held assets of $134.6 billion and personal loans of $24 billion.

Finance Companies' Liabilities and Sources of Funds

Finance companies take on all of the common forms of business organization, including the individual proprietorship, the partnership, and the corporation, with the latter predominating. Sources of funds have been generally the same as those of similar privately owned organizations in other fields of endeavor. Thus, finance companies have competed with all other types of businesses in funds markets. The only exceptions are in those states where industrial banking companies are chartered, and can compete for consumer deposits.

Data on the liabilities, capital, and surplus of the surveyed finance companies are shown in Table 33. Data for all of the reporting companies combined show that the largest sources of funds (as a percent of liabilities and capital combined) were long-term debt (30.8%) and commercial paper (26.2%). Other sources of funds in-

TABLE 31

PERCENTAGE DISTRIBUTION OF U.S. HOUSEHOLD POPULATION BY ANNUAL INCOME AND BY AGE: 1983

By Annual Income

$5,000 or less	9.2%
$5,001 to $10,000	13.7%
$10,001 to $15,000	13.0%
$15,001 to $20,000	12.0%
$20,001 to $25,000	10.8%
$25,001 to $30,000	9.2%
$30,001 to $40,000	13.7%
$40,001 to $50,000	8.1%
$50,001 to $75,000	7.4%
Over $75,000	2.8%
Total	100%
Mean household income	$25,401

By Age of Householder

Less than 25 years	6.5%
25 to 34 years	23.2%
35 to 44 years	19.4%
45 to 54 years	14.6%
55 to 64 years	15.4%
65 years and over	21.0%
Total	100.0%
Memo: Total number of households	85,407

Source: Bureau of the Census.
Note: Parts may not add to totals due to rounding.

cluded: bank loans of 3.7%, deposit liabilities and thrift certificates of 2.7%, subordinated debentures of 4.5% and capital and surplus of 10.6%.

Income and Expenses of Finance Companies

Finance companies have diversified their income-generating activities in recent years. Some have expanded into financing durable goods and commercial financing, and other companies have purchased or merged with retail outlets. Leasing has also brought in additional income. Some finance companies, through subsidiaries, have entered or expanded insurance operations, writing not only credit life insurance but also other forms of insurance. In 1983, 12.3% of the gross income of 110 reporting finance companies came from sources other than accounts receivable (Table 34). Of total gross income, 10.2% was used for wages and salaries, 0.8% for advertising and publicity, and 4.8% for losses and loss reserves. After

TABLE 32

	All Reporting Companies	Reporting Companies with Receivables of less than $1 Billion	Reporting Companies with Receivables of $1 Billion or more
	(In millions of dollars)		
Personal loans	27,953	3,931	24,022
Retail automobile paper*	53,834	871	52,963
Other consumer receivables	10,247	708	9,539
Business receivables**	42,754	518	42,236
Subtotal	134,788	6,028	128,760
Deduct reserves for unearned income	18,840	1,015	17,825
Subtotal	115,948	5,013	110,935
Deduct reserves for losses	2,136	116	2,020
Subtotal	113,812	4,897	108,915
Cash and Noninterest deposits	981	48	933
Time Deposits	1,597	160	1,437
U.S. Gov't & Other Marketable Securities	7,326	201	7,125
Other Loans & Investment	8,506	192	8,314
Other assets	8,019	183	7,836
TOTAL ASSETS	140,241	5,681	134,560
		(Number)	
Number of companies	110	92	18
Number of offices	11,177	2,187	8,990

Source: American Financial Services Association.
Note: Parts may not add to totals due to rounding.
* Includes retail automobile contracts for business purposes.
** Excludes retail automobile contracts for business purposes.

paying out 47.3% of gross income as their cost of borrowed funds, income taxes of 8.1% of gross income were paid, leaving $2.7 billion in net income (13% of gross income).

Cost of Funds and Rate of Return

Summaries of the cost of borrowing and rate of return on equity for companies which reported such information in the 1983 AFSA survey are shown in Tables 35 and 36.

In general, the cost of borrowing (expressed as a percent of total assets) was higher for the small companies than for larger companies. The mean rate of return on invested capital, defined as net income (after payment of income taxes), and expressed as a percentage of net worth, (capital, surplus and retained earnings), for all 110 reporting finance companies in 1983 was 17.84% (Table 37), a marked improvement over the 11.62% rate of 1982. The 18 large companies, on average, earned 13.65% on invested capital in

TABLE 33

LIABILITIES, CAPITAL AND SURPLUS
OF REPORTING FINANCE COMPANIES, 1983

	All Reporting Companies	Reporting Companies with Receivables of less than $1 Billion	Reporting Companies with Receivables of $1 Billion or more
		(in millions of dollars)	
Bank Loans	5,172	665	4,507
Commercial Paper	36,711	334	36,377
Other Short-term debt	9,735	1,009	8,726
Deposit Liabilities and Thrift Certificates	3,764	1,189	2,575
Long-term Indebtedness (excluding subordinated debentures)	43,143	883	42,260
Subordinated Debentures	6,325	341	5,984
All Other Liabilities	20,508	337	20,171
Subtotal - Liabilities	125,358	4,758	120,600
Capital, Surplus and Retained Profits	14,883	923	13,960
TOTAL	140,241	5,681	134,560
Number of Companies Reporting	110	92	18

Note: Parts may not add to totals due to rounding.

Source: American Financial Services Association surveys.

TABLE 34

GROSS INCOME, EXPENSES AND NET INCOME OF REPORTING FINANCE COMPANIES, 1983

	All Reporting Companies	Reporting Companies with Receivables of less than $1 Billion	Reporting Companies with Receivables of $1 billion or more
	(In millions of dollars)		
Sources of Gross Income			
Accounts receivable	17,721	972	16,749
Other	2,489	159	2,330
Total	20,210	1,131	19,079
Uses of Gross Income			
Expenses other than cost of borrowed funds:			
Wages and salaries	2,062	210	1,852
Advertising and publicity	158	17	141
Net losses and reserves	977	75	902
Other	3,161	190	2,971
Subtotal	6,358	492	5,866
Cost of borrowed funds	9,552	429	9,123
Federal income taxes	1,645	84	1,561
Net income	2,655	126	2,529
Number of Companies Reporting	110	92	18

Source: American Financial Services Association.
Note: Parts may not add to totals due to rounding. See Table 30 for number of offices covered in this report.

1983, while the 92 small companies earned an 18.12% comparable rate.

Regulation of Finance Companies

All of the federal and state statutes and regulations affecting corporations, partnerships and proprietorships generally apply to such organizations which provide consumer installment credit. In addition, finance companies are subject to special statutory provisions governing their operations by each of the states in which they operate, including the District of Columbia and Puerto Rico.

Some statutes which deal with retail sales financing require that contracts disclose certain information pertaining to the transaction but do not set maximum rates. Other statutes deal with goods financing only, others with financing of goods and services, and some only with motor vehicle sales finance agreements. Where statutes deal with motor vehicle sales there is generally a classification of cars by age.

In most states, the supervisory authority is a division of the Banking Department which is frequently empowered to supplement the statutes by promulgating rules and regulations. Elsewhere, similar powers rest

TABLE 35

ESTIMATED OVERALL COST OF BORROWING IN 1983
FINANCE COMPANIES, BY SIZE OF COMPANY

Companies with Consumer Credit Outstanding of:	High	Low	Median	(Number of companies)
$500 million and over.....	13.00%	8.07%	10.31%	17
$150 million and less than $500 million	13.58%	9.10%	10.56%	6
$50 million and less than $150 million	14.15%	9.49%	10.76%	12
Less than $50 million	14.47%	6.64%	11.38%	24
Total	14.47%	6.64%	10.62%	59

Source: American Financial Services Association.

TABLE 36

ESTIMATED RETURN ON EQUITY IN 1983
FINANCE COMPANIES*
BY SIZE OF COMPANY

Companies with Consumer Credit Outstanding of:	High	Low	Median	(Number of companies)
$500 million and over	23.7%	6.33%	12.84%	18
$150 million and less than $500 million	31.62%	6.24%	23.64%	6
$50 million and less than $150 million	28.10%	10.25%	17.47%	11
Less than $50 million	37.22%	0.0%	8.00%	25
Total	37.22%	0.0%	12.26%	60

Source: American Financial Services Association.

*Includes Finance Companies responding to AFSA Annual Survey and reporting Return on Equity of zero or greater.

TABLE 37

RELATION OF INCOME TO OUTSTANDINGS, ASSETS AND EQUITY
FINANCE COMPANIES: 1983

	All Reporting Companies	Reporting Companies with Receivables of less than $1 Billion	Reporting Companies with Receivables of $1 Billion or more
Finance charges collected as a percent of year-end net outstandings	15.28%	15.10%	19.39%
Cost of borrowed funds and net income as a percent of total assets at year-end			
Total	8.70%	8.66%	9.77%
Cost of borrowed funds	6.81%	6.78%	7.55%
Net income after taxes	1.89%	1.88%	2.22%
Net income after taxes as a percent of capital, surplus and undivided profits	17.84%	18.12%	13.65%

Source: American Financial Services Association.

with other agencies or departments. In Ohio, for example, it rests with the Director of Commerce and in California with the Commissioner of Corporations.

Many states' laws require consumer loan licensees to report regularly (usually annually) on their operations to the state supervisory authorities. In practically all states, annual examination by these authorities is required by law and examinations at other times are permitted. The costs of such examinations, in addition to the annual license fee for each operating office, are in most states borne by the licensees.

While large loans are made under various statutes, including second mortgage laws, many of the installment loans of consumer finance companies are still made under provisions of laws derived from and containing the essential elements (although not all of the specific provisions) of the "Uniform Small Loan Law" originally promulgated by the Russell Sage Foundation in 1916, and the "Model Consumer Finance Act" drawn up by the National Consumer Finance Association in 1948. The terms "Uniform Small Loan Law" and "Model Consumer Finance Act" have come to be used interchangeably. Regulatory features consist of provisions with respect to the following: 1) licensing by a state supervisory official, 2) supervision by a state supervisory official having powers to enforce and interpret the law, 3) authorization of adequate charges to permit complete service, 4) limitation of charges, 5) regulation of contract provisions, 6) disclosure of terms and status of loan transactions, 7) prohibition of evasions and subterfuges, and 8) penalties and enforcement powers. The restrictive provisions of many of these laws in the past prevented finance companies from lending competitively with other institutions and in order to become more com-

petitive, finance companies have in recent years encouraged less restriction in lending laws under which they operate.

Industrial Banking Companies

The generic term "industrial banking companies" is used to include those institutions which are chartered by state law to extend installment credit to consumers and to accept some form of savings deposit or sell investment certificates or certificates of deposit as at least a partial means of financing the operation. By virtue of this feature, their membership in Automated Clearing Houses, and their participation in the direct deposit program of U.S. Treasury checks, industrial banks are distinguished from (non-depository) finance companies as being depository institutions. Legislative and policy changes were made during 1982 and 1983 that further that distinction. The definitions of "state banks," "deposit," and "commercial loans" have been expanded to include industrial banks, their deposit-like instruments and some of their assets, with implications for their eligibility for FDIC deposit insurance and for their non-bank status.

While they may be descended from one common type of institution, namely the Morris Plan companies, many changes have taken place since the founding of the Fidelity Savings and Trust Company, the first industrial banking company, and the rules under which today's companies operate differ significantly between states. Looking at their "deposits or deposit-like instruments," for example, Investment Certificate Corporations in Kentucky are not financial institutions, have no deposit taking authority, and are licensed only to sell securities. They are regulated not only by the state banking or financial authority, but by the securities commission. At the same time, also falling into the category "industrial bank" are the institutions chartered in Rhode Island as Loan and Investment Companies or, as they are now authorized to call themselves, Loan and Investment "Banks." Not only are their savings accounts given full deposit status, but the institutions are also authorized to accept demand deposits.

The lending powers of "industrial banks" vary greatly between jurisdictions as well. In this respect, Arizona, where no Industrial Banks operate because of an interest rate restriction of 10% per year discount and maturity restricted to one year, can be compared to California, where 9% of loans made by Industrial Loan Companies in 1982 were for amounts over $10,000 and 24% of the dollar amount loaned was classified as "non-consumer" loans. Even the nature of the various institutions differs, most but not all states considering them financial institutions. Within some states (Tennessee and West Virginia for example), separate charters have been created to recognize and provide for some of these differences. The characterization of all of these institutions as "industrial banks" is maintained, however, on the basis that these are largely definitional and legal distinctions, and that, both functionally and in the way they are perceived by their customers, the institutions are very similar.

Table 38 indicates the number of industrial banking companies and offices operated in 1982-83 in twenty states. For the same states, Table 39 shows a breakdown of assets by state, which probably totaled about $7.5 billion in 1982. Table 40 shows the liabilities and net worth of industrial banking companies by state. In 1982, deposits and thrift investment certificates of these companies were in the neighborhood of $4 billion, while overall capitalization was around 16%.

State deposit insurance corporations for industrial banks have been formed and are known generically as guaranty corporations in the states of California, Colorado, Hawaii, Iowa, Kansas, Nevada, Rhode Island, and Utah. These corporations serve the specific purpose of guaranteeing the deposits of insured industrial banking companies. Institution of deposit guarantees by these corporations initially brought additional deposits into the industrial banking companies. However, as the amounts of deposit insurance for savings

and loans and commercial banks were increased from (from $10,000 to $40,000, and again in 1980 to $100,000), it became less attractive to keep deposits at industrial banking companies since other types of depository institutions were insured for larger amounts. The collapse in 1982 of the Nebraska Depository Institutions Guarantee Corp. further shook confidence in industrials in that state, although provisions for other deposit insurance are being arranged by many of the Nebraska institutions.

Uniform Consumer Credit Code

With the entry of various institutions such as finance companies, industrial banking companies, commercial banks, credit unions, retailers, savings and loan associations, and mutual savings banks into the consumer credit business, the laws applicable to each type of institution were amended. In the absence of previous legislation, new laws were passed to regulate the consumer credit aspects of these businesses. As a result, most states have in effect a number of laws which may vary as to rates, supervision, and other legal requirements placed on consumer creditors.

The Uniform Consumer Credit Code, which is an indirect descendant of the earlier-mentioned "Uniform Small Loan Law" and the "Model Consumer Finance Act", was designed as a single law to govern all consumer credit contracts and as a

TABLE 38

INDUSTRIAL BANKING INDUSTRY BY STATE[1]

	As of:	Number of Companies	Number of Locations
Arkansas	12/82	3	3
California	12/82	86	644
Colorado	12/82	154	154
Connecticut	12/83	0	0
Florida	12/82	3	3
Hawaii	12/82	78	231
Indiana	6/82	5	18
Iowa	12/82	56	201
Kansas	12/83	11	43
Kentucky	6/83	28	110
Minnesota	12/82	28	143
Missouri	12/82	2	2
Nebraska	12/82	36	36
Nevada	12/82	6	21
North Carolina	6/83	1	1
Rhode Island	12/82	11	23
Tennessee	12/83	422	422
Utah	12/82	56	110
Washington	12/82	26	189
West Virginia*	12/82	70	87
TOTAL		1,082	2,441

1/Companies with authority to issue deposits or deposit-like instruments, which may carry a variety of titles. In some states, not all companies with this authority have chosen to exercise it.

* Industrial Banks and Industrial Loan Companies combined.

Source: American Financial Services Association.

replacement for a multitude of differing state laws including small loan laws, sales finance and revolving credit laws, usury laws, and laws regulating insurance premium financing, home repair financing and second mortgage loans. Consumer credit as defined by the UCCC consists of loan and sale credit to individuals for personal, family, household, or agricultural purposes, including the purchase of a home or farm, when there is a charge for the credit or the credit is repayable in installments. The UCCC would regulate all consumer credit as defined for amounts up to $25,000, with provisions for increasing the ceiling based on increases in the Consumer Price Index.

The UCCC would fix the same maximum rates for all types of consumer credit grantors. Originally, for example, UCCC maximum rates for installment credit (loans and sales finance) were 36% per year on the first $300 loaned, 21% per year on the next $700, and 15% per year on the remainder, with the provision that steps would be increased based on changes in inflation. When these graduated rates yield less than 18% per year, the maximum would be 18% per year.

The UCCC also includes significant consumer protection provisions as to disclosure of contract terms, advertising, balloon payments, security, garnishment and other creditors' collection remedies, unconscionable or fraudulent conduct, "cooling-off" period for door-to-door sales, referral sales, rescission of contracts secured by the debtor's home, and official surveillance and enforcement by an Administrator. There are heavy civil and criminal penalties specified for violations of the UCCC.

The revisions contained in the UCCC (1974) reflected changes in response to many of the recommendations made by

TABLE 39

ASSETS OF INDUSTRIAL BANKING COMPANIES, BY STATE

(Year-end 1982 or most recent fiscal year)

	Net Receivables	Other Assets	Total Assets
	(in thousands of dollars)		
Arkansas (6/83)	20,771	12,593	33,364
California	1,397,941	194,420	1,592,361
Colorado	748,493	167,823	916,316
Florida	19,990	12,529	32,519
Hawaii	1,017,983	279,472	1,297,455
Indiana (6/82)	252,977	50,449	303,426
Iowa	342,182	140,845	483,027
Kansas	124,703	14,636	139,339
Kentucky (6/83)	47,742	8,530	56,272
Minnesota	284,871	33,114	317,985
Missouri	7,342	3,206	10,548
Nebraska	279,809	109,474	389,283
Nevada	104,083	37,375	141,458
North Carolina (6/83)	2,779	3,118	5,897
Rhode Island	308,840	318,614	627,454
Utah	474,516	130,624	605,140
Washington	274,294	5,699	279,993
West Virginia*	112,383	33,034	145,417

* Industrial Banks and Industrial Loan Companies Combined.

Source: American Financial Services Association.

TABLE 40

LIABILITIES OF INDUSTRIAL BANKING COMPANIES BY STATE

(Year-end 1982 or most recent fiscal year)

	Deposits and Thrift/Investment Certificates	Other Liabilities	Total Capital	Total Liabilities and Capital
		(in thousands of dollars)		
Arkansas (6/83)	30,019	654	2,691	33,364
California	1,266,241	138,096	188,024	1,592,361
Colorado	371,734	408,582	136,000	916,316
Florida	26,828	170	5,521	32,519
Hawaii	489,942	610,644	196,869	1,297,455
Indiana (6/82)	271,617	6,783	25,026	303,426
Iowa	208,079	142,099	132,849	483,027
Kansas	48,335	75,977	15,027	139,339
Kentucky (6/83)	10,816	22,100	23,356	56,272
Minnesota	49,927	166,483	101,575	317,985
Missouri	6,915	767	2,866	10,548
Nebraska	335,111	15,730	38,442	389,283
Nevada	126,746	3,878	10,834	141,458
North Carolina (6/83)	4,411	46	1,440	5,897
Rhode Island	566,196	18,363	42,895	627,454
Utah	387,267	113,191	104,682	605,140
Washington	58,953	132,608	88,432	279,993
West Virginia*	66,628	24,405	54,384	145,417

* Industrial Banks and Industrial Loan Companies Combined.

the National Commission on Consumer Finance established by the Consumer Credit Protection Act. The revised UCCC substantially implements the National Commission's recommendations as to buyers' defenses in installment and credit card sales and in sale-related loans, deficiency judgements, service of process, limitations on garnishment, debt collection practices, door-to-door sales, and cosigner agreements.

The Uniform Consumer Credit Code has been adopted in Colorado, Idaho, Indiana, Kansas, Maine, Oklahoma, Utah, and Wyoming. Other states, such as Louisiana, Alabama, West Virginia and Wisconsin, have passed general statutes containing various elements of the UCCC.

Consumer Credit Protection Laws

Finance companies and industrial banks, like all other creditors, are subject to the Federal Consumer Credit Protection Act and other laws which mandate special procedures concerning credit or information about consumer borrowers.

Federal protection of consumer borrowers began in 1968 with the passage of the Consumer Credit Protection Act. Title I of this legislation, the Truth in Lending Act, mandated that creditors disclose credit terms to promote the informed use of credit by consumers. It also required the Board of Governors of the Federal Reserve System to prescribe regulations to carry out the purposes of the act. Specific Federal agencies administer the Board's regulations. Pursuant to congressional instructions, the Board issued Regulation Z, which provided, among other things, for disclosure of the actual "finance charge" for credit and of the effective "annual percentage rate" to be calculated using standardized methods.

Since this initial action, the Congress

has amended the Truth in Lending Act repeatedly and has also enacted new consumer credit laws as follows: Fair Credit Reporting Act (1970), Credit Card Amendments to Truth in Lending (1970), Technical Amendments to Truth in Lending (1974), Fair Credit Billing Act (1974), Equal Credit Opportunity Act (1974), Federal Trade Commission Improvement Act (1975), Home Mortgage Disclosure Act (1975), Equal Credit Opportunity Act Amendments (1976), Consumer Leasing Act (1976), Fair Debt Collection Practices Act (1977), Community Reinvestment Act (1977), and Electronic Fund Transfer Act (1978). As Title VI of the Depository Institutions Deregulation and Monetary Control Act of 1980, "Truth in Lending Simplification" was enacted.

The administrative structure for many of these laws parallels that of the Truth in Lending Act. The Congress states its general intent and instructs the Board of Governors of the Federal Reserve System to issue regulations that apply to institutions granting consumer credit. Thereafter the Federal agencies with primary supervisory responsibility for each class of creditors administer the Board's regulations for those creditors.

Report of the National Commission on Consumer Finance

The Consumer Credit Protection Act of 1968 also created a National Commission on Consumer Finance, whose duty was to study and appraise the functioning and structure of the consumer finance industry, as well as consumer credit generally. The Commission made its report to the President and Congress on December 31, 1972.

The Commission concluded that a truly competitive consumer credit market, with adequate disclosure of relevant facts to an informed consuming public, together with legislation and regulation to eliminate excesses, will foster economic growth and serve to optimize benefits to the consumer. As to excesses in the marketplace, the Report recommended significant additions to the protection of consumers in the fields of creditors' remedies and collection practices, urging restrictions on remedies such as garnishment, repossession and wage assignment, and recommending abolition of the holder in due course doctrine, confessions of judgement, and harassing tactics in debt collections.

The Commission's research studies contain the empirical data, information and analysis relied upon by the Commission. These six technical studies are as important as the Report itself and provide some data not available elsewhere.

One of the research volumes by the National Commission on Consumer Finance released early in 1974 (Technical Studies, Volume III), contains many tables of information on installment credit by states at mid-1971—the only attempt at a comprehensive state-by-state compilation.

Electronic Fund Transfer Systems

The development of Electronic Fund Transfer Systems (EFTS) has hastened an evolution in the payments system in which the commercial banking system is no longer the exclusive vendor of the means of money transfer. A growing number of institutions and industries outside of banking are offering money or near-money deposit arrangements and providing money transfer services.

The major contenders for money transfer powers have been the nonbank depository institutions: savings and loan associations, mutual savings banks, credit unions and industrial banks. Non-depository consumer finance companies, credit card companies, retailers, insurance companies, and new institutions (such as money market funds) are displaying increased interest in the direct transfer of funds. Technology has been the instigator in this area and legislation has been passed which is permitting changes whereby commercial banks may be bypassed in funds transfers.

Over the past two decades, the operations of financial institutions have become increasingly computerized, but mostly in

ways that did not directly affect the manner in which ordinary customers transact their financial affairs. In the last few years, however, the consumer has begun to be offered computerized services that take over some of the functions of checks and currency. Many depository institutions now offer automated deposit and withdrawal services; many social security recipients and employees have their checks deposited electronically into their accounts; and some consumers are able to pay bills directly, without the use of cash or checks. These services are being facilitated by the technology that has become known as electronic fund transfers (EFT).

To learn more about EFT and to obtain a variety of views on the appropriate public policy toward EFT, the Congress established the National Commission on Electronic Fund Transfers to study and report, with recommendations, on all aspects of EFT with which the Congress should be concerned.

The Final Report of the National Commission on Electronic Fund Transfers which was released on October 28, 1977, was divided into eight parts: The Commission and Its Work; The Consumer and EFT; Developmental Issues in EFT; Technology and EFT; Roles of the Federal Government in EFT; and International Developments in EFT. Part 7 offers the separate statements of of various Commissioners on various issues. Part 8 provides a series of nine appendixes containing the text of the Act which established the Commission, the votes of Commissioners on certain recommendations, a description of the payments system in the United States, and several descriptive appendixes regarding the Commission's work.

The Report reflected the Commission's recognition that EFT was (and still is) in the midst of an evolutionary process and that only the first steps had at that time been taken in its potential development. The Commission adopted the principle that the growth of EFT should take place in a competitive environment, that EFT should be viewed as an alternative means to provide payment services and that all evidence suggested that the paper-based system will remain in operation indefinitely. The Commission also accepted the thesis that the future of EFT is inextricably tied to consumer acceptance.

Essentially the Commission viewed EFT only within the existing institutional framework. It did not attempt to offer alternative scenarios for possible development in the future. By virtue of this approach, finance companies which offer only credit and have no deposit capability, were considered in relation to credit markets and information transfer services but not in relation to funds transfer services. In contrast, industrial banking companies, which offer passbook or other deposit-like consumer services, would be included among the thrift institutions and subject to the conclusions and recommendations of the Commission.

Depository Institutions Deregulation and Monetary Control Act of 1980

The Depository Institutions Deregulation and Monetary Control Act of 1980, which became law on March 31, 1980, will have as far- reaching effects on financial institutions as did the Federal Reserve Act of 1913 and the various banking legislation of the 1930's. Through its nine titles consisting of 101 sections, the Act will have impact on the operations of all financial institutions, both depository and non-depository.

The Act will change the nature of our monetary system. All accounts of depository institutions subject to transfer of funds to third parties are incorporated into our country's medium of exchange. To effect this modernization of the monetary concept, the Act introduced the concept of "transaction account" which is defined as any deposit or account on which the depositor or account holder is permitted to make withdrawals payable to a third party. The Act also introduced the concept of the "non- personal time deposit" which is a transferable time account in which any beneficial interest is held by a depositor who is not a natural person. Beginning September 4, 1980, all depository institu-

tions (banks, savings and loan associations, and credit unions) were required to maintain reserves against such accounts. Members of the Federal Reserve System were to adjust to this new structure of reserve requirements over a three and one-half year period. Non-member banks, savings and loan associations, credit unions, and industrial banks were to be phased into the reserve requirements over an eight-year period. Depository institutions subject to these reserve requirements also have access to the Federal Reserve services.

The Act continues to alter the form and substance of regulations applied to depository institutions. To monitor and control monetary and credit aggregates, the Federal Reserve Board requires reports of assets and liabilities of all depository institutions including those that are not federally insured. The latter is accomplished through such state officer or agency as the Board may designate. To phase out the limitations on maximum rates of interest on deposits (Regulation Q) over a six-year period, the Act created a Deregulation Committee consisting of the Secretary of the Treasury, the chairmen of the federal regulatory agencies of depository institutions, and the Comptroller of the Currency. The committee's assignment was to provide depositors with a market rate of return on their savings, a task largely complete by the end of 1982.

The Act provided for a redefinition of money and near-money, that is, demand deposits, time deposits and savings deposits. The Deregulation Committee has the authority to prescribe rules governing the payment of interest by all federally insured depository institutions and to establish classes of deposits or accounts. This may be done by the gradual increase in such limitations, the complete elimination of limitations on particular accounts, the creation of new categories of accounts, the combination of any of these methods, or by any other method. On March 31, 1986, all powers transferred to the committee under the Act will terminate and the committee will cease to exist.

The Act expanded the powers of savings and loan associations to provide services as well as to obtain funds. Subject to regulations of the Federal Home Loan Bank Board, savings and loan associations may now engage in or participate in credit card operations, offer loans specifically related to negotiable order of withdrawal (NOW) accounts, offer mortgages under certain circumstances of over 90% of appraised value, offer second mortgages and offer, with limitations, consumer loans and commercial real estate loans. As a source of funds, savings and loan associations may now issue mutual capital certificates which may be used as a part of the general reserve and net worth but must be subordinate to all savings accounts, certificates and debt obligations. Any state (stock) savings and loan association that existed in stock form by March 31, 1976 may convert to a federal (stock) charter under specified conditions.

The Act preempted state usury ceilings permanently in certain instances and is subject to override by state action in others. Usury provisions of state constitutions or laws affecting first liens on residential real property and manufactured homes taken after March 31, 1980 were preempted subject to override by state action after April 1, 1980, and before April 1, 1983. A somewhat similar provision for business or agricultural loans of $1,000 or more applied, except that a rate of not more than 5% above the Federal Reserve Bank discount rate was permitted. The preemption was subject to state override and expired on April 1, 1983. Insured state banks and thrift institutions, and small business investment companies may charge a rate of 1% above the basic Federal Reserve discount rate with no terminal date, but subject to state override. State restrictions on the rate of interest that may be paid on deposits were eliminated.

The Act amended the Truth in Lending Act to simplify and reduce the number and detail of disclosures and to make them more understandable. This part of the Act went into effect on October 1, 1982.

In summary, various sections of the nine titles of the Act have made and will continue to make changes in our financial

system which will have impact upon many aspects of the operations of industrial banking companies. The Act will introduce more competition to the lending operations of finance companies, their markets for funds, and the legal framework under which they operate. The Act has created a new status for savings and loan associations including opening the federal charter to corporate stock savings and loan associations.

The Economy, 1983, 1984, and Beyond

Probably the most important, as well as the most acclaimed economic characteristic of 1982 was the significant slowdown in inflation, from the double-digit levels of previous years to a 6.1% increase for 1982, as measured by the Bureau of Labor Statistic's consumer price index annual averages and changes. Credit for this progress is largely attributed to by the Federal Reserve, as the result of its anti-inflation ary monetary policy adopted some five years ago, although the inherently anti-inflationary effects of the associated 1981-82 recession experience should of course not be overlooked in considering this decline in inflation. The Fed has acknowledged the high unemployment "cost" attendant to its policy.

Chart 23 traces three key interest rates through ten years, and shows a clearly downward trend throughout 1982. It was the high level of rates in 1982, however, despite the downward trend, which seemed to be the major stumbling block to the recovery. As a result of the large increases in the money supply measures later in the year, the economy again picked up in 1983 after interest rates fell. While the Fed and the Reagan Administration disagreed loudly on whether tight money or unprecedented deficits projected to be over $200 billion would cause rates to either slow their decline or even to rise again, both agreed with economists that unless interest rates made it more attractive to borrow and invest money in productive activity, they could choke off the still tenuous recovery. Interest rates turned out to be comparatively stable throughout 1983, rising only slightly during the second half of the year.

Recovery continued not at all tenuously throughout 1983, however, with Gross National Product rising a total of 7.7% during the year. The strength of this recovery was surprising to many who had anticipated much more lethargic improvement. Employment increased markedly, as did industrial production and the utilization of capacity in manufacturing. Unemployment fell while the labor force grew consistently, and the Commerce Department's indexes of leading and coincident economic indicators signalled continued if slightly slower growth during 1984. The increasing interest rates observed at the end of 1983 and in early 1984 continued during approximately half of 1984, before they began to decline again, a trend which has continued into early 1985.

1984 was an extremely strong year for the economy as a whole, GNP growing 10.8% in nominal dollars and 6.8% in real (1972) dollars. The actual increase was $358 billion, of which $185.9 was from consumers in the form of increased personal consumption expenditures. $166.2 billion was higher private domestic investment of all types. $61.9 billion was increased government spending, 41.5% of it federal and 58.5% state and local. The excess of imports over exports drained $56 billion more from the U.S. economy in 1984 than in 1983. The bulk of economic growth during 1984 thus took place in the consumer and business sectors.

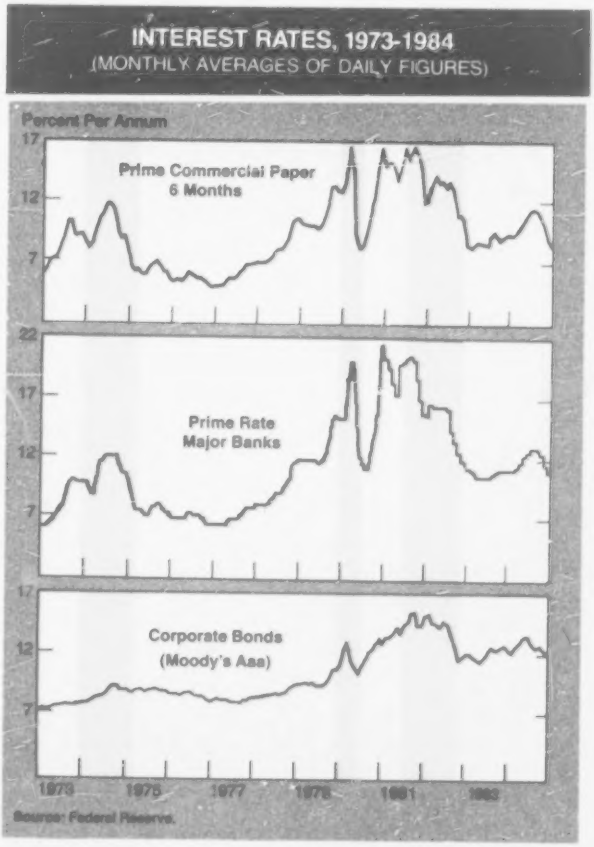
During 1984 industrial production and capacity utilization for all industries rose 10.6% and 8.2% respectively over their average 1983 levels. The index of industrial production reached an annual average of 163.3% of its 1967 level, and the percent of capacity utilized in all industries reached an annual average of 81.6. Certain industries, of course, showed less progress, mining being one of the most severe cases.

During this year of very strong economic growth, inflation has not reappeared as a major threat to economic progress and in fact has been lower during each of the past two years of recovery than

during recession-year 1982. The increase in the annual average of the Consumer Price Index for Urban consumers (CPI-U) was 4.3% in 1984. This was slightly more of an increase than occurred during 1983 (3.2%), which is not suprising, given the overall level of economic activity during the more recent period. Both of these increases show continued success in avoiding the high levels of inflation that occurred prior to 1982.

The major areas of concern to economy-watchers in 1984 were the foreign trade- and federal government- deficits. The trade deficit, a new phenomenon for the U.S., increased eightfold in 1984, reaching $64.2 billion. The federal deficit shrank slightly during fiscal 1984 to $185.3 billion, but is two-and-a-half times as large as the 1980 deficit and is expected, under current assumptions, to grow to $222.2 billion in fiscal 1985 (October 1 to September 30). Part of the reason for continued concern over this issue, despite the decline in the 1984 deficit, is that the assumptions used in projecting the 1985 deficit rely on fairly or optimistic projections of growth in the coming years. If the "assumed" growth does not occur, indeed, if instead a recession were to begin in one of the coming years, the result could be a deficit larger and, in the case of a recession, far more difficult to cut. With first quarter 1985 GNP growth coming in at less than a 1% annual rate, a federal budget imbalance larger than $222 billion seems likely unless much of the deficit-cutting talk heard around Washington is quickly translated into action.

CHART 23



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